...T AND OFFICIAL NOTICE OF SALE DATED FEBRUARY 17, 1998

... the opinion of Bond Counsel, under existing law, assuming continued compliance with certain provisions of the ... venue Code of 1986, as amended, interest on the Notes will not be included in the gross income of holders of the ... federal income tax purposes. Interest on the Notes will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although interest on the Notes will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the further opinion of Bond Counsel, interest on the Notes, and any profit made on the sale thereof, are exempt from Massachusetts personal income taxes and the Notes are exempt from Massachusetts personal property taxes. See "Tax Exemption" herein.

$165,000,000

Massachusetts Bay Transportation Authority

1998 Series A Notes

Dated: February 27, 1998 **Due: February 26, 1999**

Interest Rate : ___%

The Notes will be issued by means of a book-entry system evidencing ownership in principal amounts of $5,000 or integral multiples thereof and transfer thereof on the records of The Depository Trust Company and its participants. Details of payment of the Notes are more fully described in this Official Statement and Official Notice of Sale dated February 17, 1998. Interest will be payable at maturity calculated on the basis of the actual number of days and a 365-day year (364/365). The Notes shall be non-redeemable prior to maturity.

The Notes are being issued by the Massachusetts Bay Transportation Authority pursuant to Chapter 161A of the General Laws of the Commonwealth of Massachusetts and will constitute direct and general obligations of the Authority.

In addition, among the security provisions for the payment of the Notes is the provision of Chapter 161A of the General Laws of the Commonwealth of Massachusetts that if at any time the Authority lacks funds to pay a bond or note issued or assumed by it, the Authority shall requisition the required amount from the Commonwealth. In the opinion of Bond Counsel and Co-Bond Counsel, the obligation of the Commonwealth to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth are pledged to make such payment. See "Security for and Payment of Notes -- State Payments to the Authority."

The Notes are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinions as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel to the Authority, and of Krokidas & Bluestein, Boston, Massachusetts, Co-Bond Counsel to the Authority. For information relating to the reoffering of the Notes, see "Competitive Sale of the Notes." It is expected that settlement of this issue will occur at The Depository Trust Company in New York, New York, on February 27, 1998.

Sealed bids for the Note will be received by Wesley G. Wallace, Jr., Treasurer-Controller of the Authority, at his offices at 10 Park Plaza, 8th Floor, Room 8450, Boston, Massachusetts until 11:00 a.m. (Boston time) on Tuesday, February 24, 1998, pursuant to the Official Notice of Sale dated February 17, 1998.

February __, 1998

No dealer, broker, salesperson or other person has been authorized by the Authority, the Commonwealth of Massachusetts or the original purchasers of the Notes to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of the Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, or of the Commonwealth, or its agencies, authorities and political subdivisions, since the date hereof, except as expressly set forth herein.

TABLE OF CONTENTS

OFFICIAL STATEMENT
$165,000,000
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
1998 Series A Notes

Dated: February 27, 1998 **Due: February 26, 1999**

INTRODUCTION

The purpose of this Official Statement is to furnish certain information about the $165,000,000 1998 Series A Notes of the Massachusetts Bay Transportation Authority (the "Authority" or "MBTA") dated February 27, 1998 and payable February 26, 1999 (the "Notes").

AUTHORIZATION AND PURPOSE

The Notes are being issued by the Authority pursuant to Chapter 161A of the Massachusetts General Laws, as amended (the "Act"), on account of the Authority's Net Cost of Service (as defined below) relating to the 1998 calendar year pending payment of such Net Cost of Service by the Treasurer and Receiver-General (the "State Treasurer") of the Commonwealth of Massachusetts (the "Commonwealth").

APPLICATION OF PROCEEDS

The proceeds of the sale of the Notes will be used by the Authority to finance its current expenses (including the payment of notes of the Authority, when due) and to pay costs of issuance.

SECURITY FOR AND PAYMENT OF NOTES

Direct and General Obligations of the Authority

The Notes are direct and general obligations of the Authority, and its full faith and credit are pledged to the payment of the principal of and interest on the Notes. The Authority is subject to suit, but its property is not generally subject to attachment or levy to pay a judgment on its bonds or notes. Provision is made, however, in Section 13 of the Act (as discussed below) for court-ordered payments of unpaid notes, including the Notes, from moneys received for such purpose by the Authority from the Commonwealth of Massachusetts (the "Commonwealth").

State Payments to the Authority

Section 13 of the Act provides that if at any time the Authority lacks funds to pay the principal of or interest due on a bond or note issued or assumed by it, the Authority shall requisition the required amount from the Commonwealth. In the opinion of Bond Counsel and Co-Bond Counsel, the obligation of the Commonwealth to pay the required amount to the Authority is a general obligation of the Commonwealth and the full faith and credit of the Commonwealth are pledged to make such payment. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude payment of such amounts from the scope of the limit. Section 13 further provides that the Authority or any holder of any such unpaid bond or note,

acting in the name and on behalf of the Authority, shall have the right to require the Commonwealth to pay the Authority the amount remaining unpaid, which right shall be enforceable as a claim against the Commonwealth. The pertinent provision of Section 13 is as follows:

> "If at any time any principal or interest is due or about to come due on any bond or note issued or assumed by the authority, other than any principal or interest on any bond anticipation note guaranteed by the commonwealth, and funds to pay the same are not available, the directors shall certify to the state treasurer the amount required to meet such obligations and the commonwealth shall thereupon pay over to the authority the amount so certified. If the commonwealth shall not make such payment within a reasonable time or shall not pay when required any applicable contract assistance under section twenty eight, the authority or any holder of an unpaid bond or note issued or assumed by the authority, acting in the name and on behalf of the authority, shall have the right to require the commonwealth to pay the authority the amount remaining unpaid, which right shall be enforceable as a claim against the commonwealth. The authority or any such holder of an unpaid bond or note may file a petition in the superior court for Suffolk county to enforce such claim or intervene in any such proceeding already commenced and the provisions of chapter two hundred and fifty-eight shall apply to such petition in so far as it relates to the enforcement of a claim against the commonwealth. Any such holder who shall have filed such a petition may apply for an order of said court requiring the authority to apply funds received by the authority on its claim against the commonwealth to the payment of the petitioner's unpaid bond or note, and said court if it finds such amount to be due him shall issue such an order."

With respect to said provision, the Massachusetts Supreme Judicial Court has stated:

> "Section 13, as noted above, imposes an obligation on the Commonwealth to make advances to the Authority at any time when required to put it in funds to meet its obligations. There are in §13 specific provisions to assure lenders the aid of the courts to require that the advances needed to pay them are made. This is a 'right' enforceable against the Commonwealth." *Massachusetts Bay Transportation Authority v. Boston Safe Deposit and Trust Company*, 348 Mass. 538, 555 (1965).

Section 12 of the Act provides for the Authority to requisition from the State Treasurer and for the State Treasurer to pay to the Authority annually the Net Cost of Service incurred by the Authority in providing its mass transportation services. The Net Cost of Service is defined in the Act as the difference between (a) all income received by the Authority, including but not limited to revenues from the operations of the transit system, advertising, parking, sale of capital assets in the ordinary course of business, and gifts and grants for current purposes, and (b) all current expenses, including but not limited to expenses for operations, wages, contracts for service by others, maintenance, debt service, taxes and rentals.

Section 13 of the Act, in a separate provision from the provision discussed above pertaining to payments by the Commonwealth if funds are lacking to pay a bond or note, provides that the Authority may require the Commonwealth to pay to it an amount not exceeding its estimated Net Cost of Service for that year to date at any time the Authority lacks sufficient cash to make the payments required of it in the course of its duties.

Authorizations for Temporary Borrowing

Section 12 of the Act also provides that pending any payment from the State Treasurer to the Authority and at any other time when the Authority, in the opinion of its directors, has not sufficient cash to make the payments required of it in the course of its duties as such payments become due (which would include payment of Authority bonds and notes), the Authority may temporarily borrow money and issue notes of the Authority therefor. The Notes are being issued pursuant to said Section 12.

Section 12A of the Act provides that the Authority may secure its notes by a pledge of assessments and other moneys provided in lieu thereof or in reduction thereof. To the extent, however, that the assessments of any year represent outstanding notes of the Commonwealth issued pursuant to Section 12 or unreimbursed interest or other charges incurred by the Commonwealth in issuing such notes, a proportionate amount of each annual assessment, and of each payment thereof, shall not be included in such pledge. The Authority has to date issued no notes secured by such pledge. Section 12A also authorizes the Authority to issue notes secured by such pledge in exchange for notes issued by the Commonwealth pursuant to Section 12.

In order to make the payments required of the Commonwealth by Sections 12 and 13, the State Treasurer is authorized by Section 12 to issue general obligation temporary notes of the Commonwealth in an amount sufficient to make such payments, to pay interest on the notes and to pay costs of issuance. The proceeds of such notes will, however, be general funds of the Commonwealth until paid to the Authority, and no lien has been created thereon in the hands of the Commonwealth to secure payment of the Notes at maturity in priority to other claims against the Commonwealth then or theretofore coming due.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which term would include notes of the Commonwealth issued under Section 12, but the property of the Commonwealth is not subject to attachment or levy to pay a judgment.

Other Factors

The payment by the Commonwealth of an amount required to be paid by Sections 12 and 13, the payment of a judgment obtained against the Commonwealth under Section 13 and the ability of the State Treasurer to issue notes of the Commonwealth to make such payments may be subject to legislative appropriation of the necessary funds.

With respect to any Net Cost of Service paid by the Commonwealth to the Authority, the Act provides for the Commonwealth to make assessments against the cities and towns in the Authority's territory. Pursuant to Chapter 580 of the Acts of 1980, as amended ("Proposition 2½"), the total amount of these assessments in a given year may not exceed by more than 2.5% the total amount of the prior year's assessments. The obligation of the Commonwealth to make payments to the Authority under Sections 12 and 13 of the Act is not, however, in any way conditional upon the payment of such assessments by the cities and towns. See "The Authority -- Assessments on Cities and Towns" and "The Authority -- State Contract Assistance."

Enforcement of a claim for payment of principal of or interest on notes of the Authority or the Commonwealth and enforcement of the "right" against the Commonwealth described in "State Payments to the Authority" above would be subject to the applicable provisions of Federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied.

The ability of the Commonwealth or the Authority to issue notes in the future will depend upon the financial condition of the Commonwealth and the Authority at the time such notes are to be issued and, in particular, upon the marketability at that time of debt instruments to be issued by the Commonwealth or the Authority. Certain information regarding the economic and financial condition of the Commonwealth is set out in Appendix A hereto, but other factors which may affect the marketability of Commonwealth and Authority debt in the future cannot now be foreseen.

BOOK-ENTRY ONLY SYSTEM

The Notes will be issued by a book-entry only system, evidencing ownership of the Notes in principal amounts of $5,000 or integral multiples thereof, with no physical distribution of Notes made to the public. The Depository Trust Company ("DTC"), New York, New York, will act as Depository for the Notes, which will be immobilized in its custody. The Notes will be registered in the name of Cede & Co., as nominee for DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve system, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC was created to hold securities of its participants ("DTC Participants") and to facilitate the clearance and settlement of securities transactions among DTC Participants in such securities through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations, some of whom (and/or their representatives) own DTC. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants").

Purchases of the Notes under the book-entry only system may be made through brokers and dealers who are, or act through, DTC Participants. DTC Participants shall receive a credit balance in the records of DTC. The ownership interest of the actual purchaser of each Note (the "Beneficial Owner") will be recorded through the records of the applicable DTC Participant. Beneficial Owners will receive a written confirmation of their purchase providing details of the Notes acquired. Transfers of ownership interests in the Notes will be accomplished by book entries made by DTC and by the DTC Participants who act on behalf of Beneficial Owners. Beneficial Owners will not receive Notes representing their ownership interest in the Notes. Interest and principal will be paid to DTC, or its nominee, and then paid by DTC to the DTC Participants and thereafter paid by the DTC Participants to the Beneficial Owners when due.

THE AUTHORITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS.

Beneficial Owners of the Notes will not receive or have the right to receive physical delivery of such Notes, and will not be or be considered to be owners thereof. So long as Cede & Co. is the registered owner of the Notes, as nominee of DTC, references herein to the holders or registered owners of the Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the Notes.

For every transfer or exchange of any of the Notes, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

DTC may determine to discontinue providing its service with respect to the Notes at any time by giving notice to the Authority and discharging its responsibilities with respect thereto under applicable

law. Under such circumstances, unless a substitute Note Depository is retained by the Authority, Notes will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Notes held in the Beneficial Owner's name, will become the Noteholder.

The Authority may determine that continuation of the system of book-entry transfers through DTC (or a successor Note Depository) is not in the best interests of the Beneficial Owners. In such event, Notes will be delivered and registered as designated by the Beneficial Owners.

When reference is made to any action which is required or permitted to be taken by the Beneficial Owners, such reference shall only relate to action by such Beneficial Owner or those permitted to act (by statute, regulation or otherwise) on behalf of such Beneficial Owners for such purposes. When notices are given, they shall be sent to DTC only.

The principal of and interest on the Notes will be paid, in immediately available funds, to DTC or its nominee, Cede & Co., as registered owner of the Notes. DTC's practice is to credit DTC Participants' accounts on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe that it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time.

The Authority cannot and does not give any assurances that DTC, DTC Participants or others will distribute payments of principal of and interest on the Notes paid to DTC or its nominee, as the registered owner, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

THE AUTHORITY

The Authority was created in 1964 by the Act and is a body politic and corporate and a political subdivision of the Commonwealth. The territorial area of the Authority consists of 78 cities and towns in the greater Boston metropolitan area. The Authority finances and operates mass transportation facilities within its territory and to a limited extent outside its territory and is authorized to enter into agreements for providing mass transportation service by private companies, including railroads.

Management

The affairs of the Authority are managed by a board of seven directors (the "Board of Directors" or "Board"). The State Secretary of the Executive Office of Transportation and Construction of the Commonwealth (hereinafter called the "Secretary") serves ex officio as the Chairman of the Board. The other six directors are appointed by the Governor of the Commonwealth to serve terms coterminous with the Governor. The Board has the power to appoint and employ a General Manager, subject to the approval of an advisory board (the "Advisory Board"). The Act provides that the Advisory Board, consisting of a representative of each of the cities and towns constituting the Authority, shall have certain specified powers, including the power to approve the Authority's budget or subject it to itemized reductions.

The Authority's directors and principal officers are:

PATRICK J. MOYNIHAN, *Chairman, Natick, Massachusetts*
Former General Manager, MBTA; former Undersecretary and General Counsel, Executive Office of Transportation and Construction; former Deputy Commissioner and Chief Counsel, Massachusetts Highway Department; former Assistant Attorney General and Budget Director, Office of the Attorney General, Commonwealth of Massachusetts; former Division Director, Massachusetts State Auditor's Office; former Town Administrator, Town of Northbridge, Massachusetts.

GILBERT S. HOLLAND, *Director, Longmeadow, Massachusetts*
Member Massachusetts Republican State Committee; former Chairman of U.S. Small Business Administration Advisory Board of Massachusetts and Chairman of Combined Boards-Region One; past owner and operator of real estate rental properties-commercial and residential.

JANICE LOUX, *Director, Boston, Massachusetts*
President of Greater Boston Hotel Employees Local 26 Union; Treasurer of the Local 26 Trust Funds; former Vice-President and Benefits Officer of Local 26.

OLIVER C. MITCHELL, JR., *Director, Milton, Massachusetts*
Member of Goldstein & Manello, P.C.; former First Assistant District Attorney for Hampden County; former Assistant United States Attorney for Massachusetts.

MARY J. NOONAN, *Director, Amesbury, Massachusetts*
Staff Nurse, Anna Jaques Hospital, Newburyport, Massachusetts; active health care professional.

JAMES A. RADLEY, *Director, Dedham, Massachusetts*
President, A.I.M. Insurance; President of Falmouth Marine, Inc.

BOYCE SLAYMAN, *Director, Roxbury, Massachusetts*
Former Executive Director, Massachusetts Council of Human Service Providers; former Executive Director, Human Resources Center; former President, Boyce Slayman & Associates; former Senior Associate/Manager, Mark Battle Associates; former Store Manager, The Stop & Shop Companies.

ROBERT H. PRINCE, *General Manager*
Former Chief of Staff, MBTA, former Chief Operating Officer, MBTA; former Assistant General Manager for Subway Operations, MBTA; former Assistant General Manager for Human Resources, MBTA; former Special Assistant to the General Manager, MBTA.

PHILIP PUCCIA III, *Deputy General Manager*
Former Chief of Staff, MBTA, former Special Assistant to Secretary of Transportation, Executive Office of Transportation and Construction; former Assistant to the Commissioner of the Massachusetts Highway Department; former Director of Communications for the Massachusetts Republican State Committee.

C. MIKEL OGLESBY, *Chief of Staff*
Former Section Chief of Administration and Finance, MBTA; former Project Manager of Human Resource Information System, MBTA; former Special Assistant to the General Manager's Office, MBTA; former Senior Manager of Budget, MBTA.

JONATHAN R. DAVIS, *Chief Financial Officer*
Former Budget Director, MBTA; former Vice-President and Controller, H.P. Hood Company.

WESLEY G. WALLACE, JR., *Treasurer-Controller*
Former Deputy Treasurer-Controller, MBTA; former Consultant to Construction Department, MBTA; former Assistant General Manager, Regional Transit Authority, New Orleans.

WILLIAM A. MITCHELL, JR., *General Counsel*
Former Member of Cosgrove, Eisenberg and Kiley, P.C.; former Chief of the Civil Bureau, Office of the Attorney General, Commonwealth of Massachusetts; former Chief of the Building Construction Unit, Office of the Attorney General, Commonwealth of Massachusetts; former Chairman, Contributory Retirement Appeal Board.

The Transportation System

The Authority operates rapid transit rail service, bus service and commuter rail service (through arrangements with Amtrak) for an area of eastern Massachusetts with a population of more than 1.7 million people. An estimated 632,000 passengers are served every business day on the transit and bus services, and an additional estimated 98,000 passengers per weekday on the commuter rail system.

Rapid Transit Rail Service. The Authority operates over 46 miles of rapid transit rail routes. Three separate rapid transit rail lines (the Red, Orange and Blue Lines), which now serve 53 stations, are served with heavy rail rapid transit equipment. Services are also provided by streetcars and light rail vehicles on 35 miles of additional rail routes (the Green Line and the Mattapan Line) serving 78 fixed stations and additional demand trolley stops.

Bus Service. The Authority owns more than 1,000 buses, which operate on 159 bus routes over a total route mileage of approximately 710 miles. In addition to local services, the Authority operates a frequent schedule of express buses to and from downtown Boston and surrounding communities on the Massachusetts Turnpike and U.S. Interstate 93. In addition, the Authority monitors six local service subsidy programs which provide intracommunity and feeder services.

Commuter Rail Service. The Authority operates over 400 units of passenger rail equipment (including locomotives and cars) providing commuter passenger operations which provide service to and from 117 outlying rail stations and downtown Boston.

Other Services. A special program, "The Ride," operates 155 vans and 100 sedans which serve the elderly and handicapped with approximately 100,000 trips per month for work, medical treatment, shopping and social functions.

Since 1964, when the Authority assumed control of the properties of its predecessor, the Metropolitan Transit Authority ("MTA"), the Authority has engaged in a major program of capital improvements to modernize its equipment, improve its physical plant, and relocate and extend its rapid transit and commuter rail lines. The Program is financed in principal part through federal aid and the proceeds of bonds issued by the Authority.

Budgetary Matters

The Act requires that expenses of the Authority shall be in accordance with an itemized budget. The Act provides for the Authority to submit each year its projected budget to the Secretary and the Advisory Board. The Secretary is required to review and make recommendations regarding the budget. The Advisory Board is required to approve the budget as submitted or subject it to itemized reductions. The Act provides that the budget governs the current expenses of the Authority during the year and no such expenses may be incurred in excess of those shown in the budget. The budget may from time to time be amended by the preparation and submission by the Authority to the Secretary and the Advisory Board of

supplemental budgets, which the Secretary is required to review, and the Advisory Board is required either to approve as submitted or subject some supplemental budgets to itemized reductions.

Fiscal Year Change

From 1971 until 1983, all fiscal arrangements of the Authority were on a calendar year basis. Under this arrangement the Authority's budget was adopted for the calendar year and the Net Cost of Service, after computation and certification to the Commonwealth on a calendar year basis, was funded by appropriations by the Commonwealth and assessments on the cities and towns which were made in the fiscal year commencing each July 1 following the applicable calendar year of the Authority. Legislation enacted in 1980, however, stipulated that as of July 1, 1983 the Authority's fiscal year change from the calendar year to a July 1-June 30 fiscal year to coincide with the fiscal year of the Commonwealth and its cities and towns.

As a result, the Authority's budgetary procedures are now conducted on a fiscal year basis. Under other specific provisions of the Act, however, the Authority continues to certify the Net Cost of Service on a calendar year basis as was done in the past.

The 1980 legislation requiring the fiscal year change did not change the provisions of Sections 12 and 13 of the Act, which provide for payments to the Authority by the Commonwealth and authorize the Authority and the Commonwealth to borrow money temporarily to finance, respectively, the Authority's costs of operation and the Commonwealth's payments to the Authority on a calendar year basis.

Recent Budgets

The first of the following tables shows the Authority's calendar year 1993, 1994, 1995, 1996, 1997 and 1998 income and expenses, the calculation of the Net Cost of Service and the net amount of the assessments on the cities and towns relating to those years. The 1998 figures are based on the Authority's projected income and expenses for the 1998 calendar year, such expenses reflecting the last six months of the Authority's fiscal year 1998 actual operations and the estimated first six months of the Authority's 1999 fiscal year.

The second table shows the Authority's fiscal year 1994, 1995, 1996, 1997 and 1998 income and expenses. The first four columns are based on the Authority's actual income and expense figures for its 1994, 1995, 1996 and 1997 fiscal years. The Authority's initial fiscal year 1998 approved budget was $838.2 million, but the Board approved a supplemental budget request on December 12, 1997 for an additional $16.2 million. The $16.2 million supplemental budget funds three initiatives: $3.9 million for the implementation of the requirements of the Attorney General's agreement and FTA's Equal Employment Opportunity Compliance Review; $3.1 million for the move of the commuter rail interim maintenance operation to the new Boston Engine Terminal; and $9.2 million to cover operating savings in fiscal year 1998 for the Authority's delayed bus outsourcing initiative. The Advisory Board approved the supplemental budget request on January 8, 1998. The Authority's fiscal year 1999 budget is currently being developed and must be approved by the Board and Advisory Board of the Authority.

The amounts shown in the following tables reflect the accounting procedures required by the Act to determine the Authority's Net Cost of Service. Since these procedures differ in certain respects from generally accepted accounting principles, the amounts shown for income and expense items may differ from the corresponding items in the Authority's audited financial statements. See Appendix B.

The third table represents the Authority's cash flow projections for calendar year 1998.

SUMMARY OF INCOME AND EXPENSES
AND NET COST OF SERVICE: CALENDAR YEARS 1993 - 1998

INCOME	1993 Operations	1994 Operations	1995 Operations	1996 Operations	1997 Operations (Projected)	1998 Operations (Estimated)
Revenue from Transportation	$138,991,093	$143,998,250	$146,985,335	$147,687,151	$151,519,746	$153,440,540
Revenue from Other Railway Operations	10,518,285	16,648,152	17,301,718	21,825,704	20,721,589	21,998,887
Non-Operating Income	3,946,862	7,634,102	6,622,957	6,422,834	13,559,690	14,200,000
TOTAL INCOME	$153,456,240	$168,280,504	$170,910,010	$175,935,689	$185,801,025	$189,639,427
EXPENSES						
OPERATING WAGES AND FRINGE BENEFITS						
Wages	$253,837,557	$250,244,071	$239,251,385	$241,052,950	$244,628,559	$245,556,825
General and Administrative Cost Capitalized-Credit	(1,636,735) (1)	0 (1)	0 (1)	0 (1)	0 (1)	0 (1)
MBTA Pensions	40,165,833	32,170,876	29,100,173	31,128,036	29,817,746	31,365,643
Social Security Taxes	22,265,408	18,218,106	19,319,994	18,596,020	18,444,756	18,661,540
Workers' Compensation	14,759,574	10,919,529	7,358,958	6,856,469	6,131,553	7,008,058
Accident and Sickness Insurance	648,464	486,646	512,330	542,526	597,121	551,200
Group Life Insurance	1,507,395	1,010,994	912,205	901,444	991,232	998,360
Health Care Insurance	61,108,251	46,072,699	45,999,176	42,128,291	45,661,167	48,952,087
Unemployment Insurance	1,134,986	737,191	1,079,710	1,021,591	986,910	1,120,885
Uniform and Work Clothes	1,094,620	921,650	915,353	694,556	996,706	715,218
Less: Fringe Benefits Cost Capitalized - Credit	(22,480,942) (1)	4,919,328 (1)	(735,425) (1)	878,416 (1)	217,045 (1)	268,934 (1)
SUBTOTAL. OPERATING WAGES AND FRINGE BENEFITS	$372,404,411	$365,701,090	$343,713,859	$343,800,299	$348,472,795	$355,198,750
OTHER EXPENSES:						
Material and Other Items	$76,710,549	$70,961,982	$62,060,385	$59,319,151	$59,306,339	$74,581,818
Injuries and Damages	11,386,525	10,032,359	9,189,783	10,053,738	8,764,217	9,204,022
Interest on Unfunded Debt	11,624,932	12,704,664	14,322,595	13,127,456	12,070,571	12,605,657
Fuel	19,573,902	15,431,910	17,179,764	17,227,028	17,450,000	17,641,776
Taxes (Other than included above)	1,839,563	1,602,078	1,651,225	1,526,937	1,727,509	1,680,692
Railroad Commuter Subsidy	67,285,510	62,608,251	59,957,187	53,756,385	67,856,748	82,785,449
Local Service Subsidy	15,145,437	16,971,782	19,094,533	18,910,548	22,079,616	23,858,225
TOTAL OPERATING EXPENSES	$575,970,829	$556,014,116	$527,169,331	$517,721,542	$537,727,795	$577,556,389
FIXED CHARGES:						
Interest on Funded Debt (MTA)	$3,549,128	$2,776,116	$3,387,585	$2,743,299	$ 2,502,254	$ 2,310,617
Interest on Funded Debt (MBTA)	112,144,427	120,595,005	134,305,910	155,005,461	168,423,998	187,322,507
Payment on Funded Debt (MTA)	6,784,804	2,687,655	2,629,744	2,954,250	2,818,002	2,784,248
Payment on Funded Debt (MBTA)	64,003,431	74,527,526	86,686,402	96,124,280	106,412,495	114,614,448
Miscellaneous Charges	1,297,931	1,802,456	2,432,048	1,011,697	1,610,928	1,358,681
TOTAL: FIXED CHARGES	$187,779,721	$202,388,758	$229,441,689	$257,838,987	$281,767,677	$308,390,501
TOTAL EXPENSES	$763,750,550	$758,402,874	$756,611,020	$775,560,529	$819,495,472	$885,946,890
EXPENSES IN EXCESS OF INCOME	$610,294,310	$590,122,370	$585,701,010	$599,624,840	$633,694,447	$696,307,463
CALCULATION OF NET COST OF SERVICE						
EXPENSES IN EXCESS OF INCOME	$610,294,310	$590,122,370	$585,701,010	$599,624,840	$633,694,447	$696,307,463
Less: Federal Operating Assistance	18,210,443	16,116,023	13,404,006	8,105,509	6,349,045	7,500,000
NET COST OF SERVICE	$592,083,867	$574,006,347	$572,297,004	$591,519,331	$627,345,402	$688,807,463
Less						
Section 28 Contract Asst	$165,546,962	$177,627,771	$208,709,216	$237,658,762	$255,721,763	$274,160,306
State Fin Contract Asst. MBTA (RR)	13,070,310	13,498,220	13,875,294	13,955,676	14,383,283	13,978,283
General Contract Assistance	291,163,349	262,538,849	226,952,500	215,268,911	228,212,323 (2)	268,115,140 (3)
	$469,780,621	$453,664,840	$449,537,010	$466,883,349	$498,317,369	$556,253,729
PORTION OF NET COST OF SERVICE FOR ASSESSMENT BY STATE (4)	$122,303,246	$120,341,507	$122,759,994	$124,635,982	$129,028,033	$132,553,734

(1) The General and Administrative Cost Capitalized -Credit and Fringe Benefit Cost Capitalized Credit line items reflect reimbursements to the operating budget for administrative and fringe benefit costs paid from the operating budget, but which relate to the capital program. The Authority implemented a new financial software package in January 1994 which automatically calculates and charges the appropriate administrative and fringe benefit costs to the capital budget thereby eliminating the need for these two capital credit line items.

(2) The Governor's fiscal year 1999 budget as presented to the legislature for approval, contains appropriations, together with other prior appropriations, sufficient to provide this amount of General Contract Assistance.

(3) This amount assumes that the legislature will appropriate General Contract Assistance in the amount necessary to limit the assessment on the cities and towns in the territory of the Authority to 102.5 percent of the prior year's assessment.

(4) Excludes interest and other charges incurred in State borrowings, which were $5,461,191 for 1993, $10,617,040 for 1994, $11,472,518 for 1995, $12,952,344 for 1996, and are estimated to be $12,000,000 for 1997 and $12,000,000 for 1998, and Boston Metropolitan District expenses of $25,000 in each year through 1998.

SUMMARY OF INCOME AND EXPENSES
FISCAL YEARS 1994-1998

INCOME	Fiscal 1994 Operations	Fiscal 1995 Operations		Fiscal 1996 Operations		Fiscal 1997 Operations		Estimated Fiscal 1998 Operations	(b)
Revenue from Transportation	141,738,427	$145,034,260		$148,156,643		$149,037,837		$153,000,000	
Revenue from Other Railway Operations	14,432,240	15,534,946		19,178,516		21,439,465		21,998,905	
Non-Operating Income	5,728,851	6,200,303		8,030,279		6,082,255		4,700,000	
Total Income	$161,899,518	$166,769,509		$175,365,438		$176,559,557		$179,698,905	
EXPENSES									
Operating Wages and Fringe Benefits:									
Wages	$268,405,467	$238,107,551		$240,328,600		$242,549,744		$241,782,940	
General and Administrative Cost Capitalized - Credit	(2,434,339)	(0)	(a)	0	(a)	0	(a)	0	(a)
M.B.T.A. Pensions	39,222,244	31,572,678		29,548,287		30,189,228		30,253,240	
Social Security Taxes	22,942,059	18,949,735		17,930,462		18,791,305		18,414,501	
Workers' Compensation	13,864,582	9,034,824		6,569,131		5,857,023		5,866,260	
Accident and Sickness Insurance	547,260	499,263		515,647		630,952		528,455	
Group Life Insurance	984,235	1,024,040		914,615		947,682		986,255	
Health Care Insurance	59,963,170	44,730,804		41,225,777		45,385,249		48,174,010	
Unemployment Insurance	959,554	852,844		1,167,183		818,453		1,297,091	
Uniform and Work Clothes	908,663	698,413		783,640		624,405		999,823	
Less: Fringe Benefits Costs Capitalized - Credit	(12,523,129)	170,749	(a)	192,454	(a)	17,683	(a)	280,000	(a)
Subtotal: Operating Wages and Fringe Benefits	$392,839,766	$345,640,901		$339,175,796		$345,811,724		$348,582,575	
Material and Other Items	$71,455,102	$62,885,017		$58,561,831		$61,856,575		$66,495,364	
Injuries and Damages	12,000,000	9,989,461		8,040,833		8,787,428		8,800,000	
Interest on Unfunded Debt	11,854,911	14,164,169		13,733,952		12,158,465		11,963,083	
Fuel and Traction Power	16,969,015	15,795,750		17,201,325		18,504,348		17,215,433	
Taxes (other than included above)	1,804,196	1,663,757		1,561,081		1,751,904		1,600,848	
Commuter Railroad Subsidy	65,774,278	61,188,410		51,110,125		61,162,847		73,183,624	
Local Service Subsidy	15,985,342	17,146,103		17,162,996		21,106,072		24,024,231	
Total Operating Expenses	$588,682,610	$528,473,568		$506,547,939		$531,139,363		$551,865,158	
Fixed Charges:									
Interest on Funded Debt (M.T.A.)	$3,069,561	$3,249,212		$2,794,204		$2,626,932		$2,383,446	
Interest on Funded Debt (M.B.T.A.)	114,260,602	122,572,970		148,104,002		159,875,769		184,755,554	
Payment on Funded Debt (M.T.A.)	4,876,259	2,292,000		2,979,000		2,880,750		2,796,500	
Payment on Funded Debt (M.B.T.A.)	72,961,135	81,062,901		90,501,433		102,193,012		111,020,400	
Miscellaneous Charges	1,721,358	1,771,800		1,652,914		1,527,296		1,646,503	
Total: Fixed Charges	$196,888,915	$210,948,883		$246,031,553		$269,103,759		$302,602,403	
Total Expenses:	$785,571,525	$739,422,451		$752,579,492		$800,243,122		$854,467,561	
Expenses in Excess of Income	$623,672,007	$572,652,942		$577,214,054		$623,683,565		$674,768,656	

(a) The General and Administrative Cost Capitalized -Credit and Fringe Benefit Cost Capitalized Credit line items reflect reimbursements to the operating budget for administrative and fringe benefit costs paid from the operating budget, but which relate to the capital program. The Authority implemented a new financial software package in January 1994 which automatically calculates and charges the appropriate administrative and fringe benefit costs to the capital budget thereby eliminating the need for these two capital credit line items.

(b) The Estimated Fiscal 1998 Operations expenses include a supplemental budget request of $16.2 million that was approved by the Advisory Board on January 8, 1998. See "Budgetary Matters – Recent Budgets."

Cash Flow - Calendar Year 1998 Projected
(000s Omitted)

	>>>>>>>>>>>>>>>>>>>>>>>>>> 1998 <<<<<<<<<<<<<<<<<<<<<<<<<<												
	January	February	March	April	May	June	July	August	September	October	November	December	Total
Beginning Balance	$47,124	$46,190	$233,528	$83,688	$87,014	$80,378	$75,792	$68,435	$68,156	$54,933	$46,323	$44,524	
Cash Receipts													
Revenue from Transportation	$12,841	$12,896	$13,017	$12,697	$12,858	$12,513	$12,809	$12,865	$12,987	$12,664	$12,826	$12,468	$153,441
Revenue from Commuter Rail	4,680	4,715	4,750	4,786	4,822	4,858	4,894	4,931	4,968	5,005	5,043	5,048	$58,500
Revenue from Concessions	1,612	1,684	1,838	1,797	1,986	1,786	1,701	1,777	1,940	1,897	2,096	1,885	$21,999
Investment Income	231	205	219	221	217	215	197	7,213	201	229	234	4,818	14,200
State Treasurers Net Cost of Service Advances	28,500	61,000	43,000	35,000	24,000	24,000	28,000	27,000	37,000	26,000	30,000	24,000	387,500
Sale of Temporary Notes		165,000							160,000				325,000
State Contract Assistance - Debt Service	9,410	164,383				4,477	5,850		81,628		3,000	2,213	270,961
State Contract Assistance - Commuter Rail			13,978										13,978
Federal Operating Assistance			7,500										7,500
Total Receipts	$57,274	$409,883	$84,302	$54,501	$43,883	$47,849	$53,451	$53,786	$298,724	$45,795	$53,199	$50,432	$1,253,079
Total Receipts & Beg. Balance	$104,398	$456,073	$317,830	$138,189	$130,897	$128,227	$129,243	$122,221	$366,880	$100,728	$99,522	$94,956	
Cash Payments													
Wages, Pensions FICA & Workers Compensation	25,181	24,350	24,660	24,686	24,649	24,632	26,102	25,566	25,547	25,821	25,708	25,690	$302,592
Health, Life, Accident & Unemployment Insurance	4,052	4,493	4,352	4,420	4,136	4,193	4,214	4,533	4,445	4,503	4,279	4,271	51,891
Materials, Services, Settlements, Local Service, Other	10,418	10,304	10,294	10,627	10,268	10,471	11,036	11,057	11,026	11,086	11,184	11,269	129,040
Railroad Subsidy	10,926	10,861	10,855	10,894	10,900	10,812	12,761	12,673	12,658	12,699	12,698	12,548	141,285
Fixed Charges	7,631	525	183,981	548	566	2,327	6,695	236	91,071	296	1,129	2,800	297,805
Payment of Temporary Notes		172,012							167,200				339,212
Total Payments	$58,208	$222,545	$234,142	$51,175	$50,519	$52,435	$60,808	$54,065	$311,947	$54,405	$54,998	$56,578	$1,261,825
Ending Balance	$46,190	$233,528	$83,688	$87,014	$80,378	$75,792	$68,435	$68,156	$54,933	$46,323	$44,524	$38,378	

Fare Increases

On September 3, 1991, the Authority raised its fares for virtually all of its services. Local bus fares rose from $0.50 to $0.60 and subway fares rose from $0.75 to $0.85. Express bus fares rose by $0.25 to $0.35 and commuter rail fares increased by $0.10 to $0.75, depending upon the zone (measured by distance traveled). Fares for senior citizens and persons with disabilities rose from $0.10 to $0.15 for local buses and from $0.10 to $0.20 for the subway, and the fare for accessible van service. "The Ride," increased from $0.75 to $1.00. Monthly pass prices also increased on October 1, 1991. The monthly local bus pass price rose from $18 to $20, and commuter rail pass prices rose by $8 to $24, depending upon the zone. However, as an incentive for more subway riders to purchase monthly passes, subway pass prices remained unchanged at $27.

Assessments on Cities and Towns

The annual Net Cost of Service, including any payments under Sections 12 and 13, together with interest and other costs of borrowing by the Commonwealth under Section 12, is assessed on the cities and towns included in the territory of the Authority in accordance with a complex formula which takes into account the type and location of service. Pursuant to Proposition 2½ the annual increase in the total assessments on the cities and towns included in the territory of the Authority on account of its operations is limited to 2.5% of the prior year's assessments. The obligation of the Commonwealth to make payments under Sections 12 and 13 is not, however, in any way conditional upon the payment of such assessments by the cities and towns. The constitutionality of the assessment formula (as originally enacted) was sustained by the Massachusetts Supreme Judicial Court in 1965 and (as amended in certain respects) in 1975. The assessments are applied to the payment of any notes issued by the Commonwealth under Section 12. A 1975 opinion of the Attorney General of the Commonwealth states that the proceeds of such assessments may be applied to such payment of notes without further appropriation. The assessment proceeds will, however, be general funds of the Commonwealth when received and no lien has been created thereon to secure the payment of such notes at maturity in priority to other claims against the Commonwealth then or theretofore coming due. (If assessment lien notes were issued by the Authority under Section 12A, as discussed above, in lieu of financing by the Commonwealth, the proceeds of the assessments would, to that extent, be applied to the payment of the assessment lien notes. See "Security For and Payment of Notes -- Authorizations for Temporary Borrowing.")

The Commissioner of Revenue is required to furnish estimated assessments to local assessors on or before March 1 of each year. The local assessors are required to include the estimated assessments in the local property tax levies. If the actual assessment is higher or lower than the estimated assessment, provision is made for an adjustment in the property tax levy of the following year. On or before August 20, the State Treasurer is required to send his warrants to the cities and towns for the actual assessments. The State Treasurer is required to reduce amounts distributable to cities and towns from the Commonwealth by the amount of all assessments due the Commonwealth from such cities and towns, including assessments relating to the MBTA. In the event any assessments due from a city or town exceed the amounts distributable to it from the Commonwealth, such city or town must pay the amount of such excess to the State Treasurer in accordance with a schedule to be established by the Executive Office for Administration and Finance. There is a penalty of one per cent per month on delinquent payments and provision is made for court proceedings against the delinquent city or town. The State Treasurer is empowered to deduct an unpaid assessment from any amount otherwise payable to the city or town and to apply that amount to payment of the assessment. Under the laws of the Commonwealth, local aid payable to a city or town may be used or intercepted in certain circumstances to satisfy certain obligations of the city or town. To the extent a city or town in the Authority's territory has obligations

under such laws, or owes other assessments to the Commonwealth, the State Treasurer might not be able to offset state aid against an unpaid Authority assessment.

The Commonwealth provides contract assistance to defray a part of the Net Cost of Service and the assistance so provided is applied in reduction of the Net Cost of Service to be assessed on the cities and towns. See "State Contract Assistance" below. Notes issued by the Commonwealth under Section 12 may be paid from such assistance as is provided as well as from assessment proceeds.

For the years ended December 31, 1993 through 1997, the amounts assessed on the cities and towns (calculated as indicated) were as follows:

Year Ended December 31	Cost of Service in Excess of Assistance	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance(1)	Less: Additional Contract Assistance and Other State Assistance(2)	Subtotal	Interest and Other Charges(3)	Amount Assessed or to be Assessed
1993	$610,294,310	$18,210,443	$165,546,962	$304,233,659	$122,303,246	$5,486,191	$127,789,437
1994	590,122,370	16,116,023	177,627,771	276,037,069	120,341,507	10,642,040	130,983,547
1995	585,701,010	13,404,006	208,709,216	240,827,794	122,759,994	11,497,518	134,257,512
1996	599,624,840	8,105,509	237,658,762	229,224,588	124,635,982	12,977,344	137,613,326
1997	633,694,447	6,349,045	255,721,763	242,595,606(4)	129,028,033	12,025,000	141,053,033
1998	696,307,463	7,500,000	274,160,306	282,093,423(5)	132,553,734	12,025,000	144,578,734

(1) Contract assistance under Section 28 of the Act for payment of a portion of debt service on certain of the Authority's indebtedness.

(2) Additional General Contract Assistance and other state assistance provided by the Commonwealth.

(3) Includes interest and other charges incurred in borrowings by the Commonwealth and Boston Metropolitan District expenses of $25,000 in each year.

(4) The Governor's fiscal year 1999 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.

(5) This amount assumes that the legislature will appropriate General Contract Assistance in the amount necessary to limit the assessment on the cities and towns in the territory of the Authority to 102.5 percent of the prior year's assessment.

The cities and towns upon which assessments are made vary considerably as to size, assessed valuation and degree of obligation for the assessments levied by the Commonwealth on account of the Authority's Net Cost of Service. The estimated assessments on the cities and towns on account of the 1997 calendar year Net Cost of Service in the amount of $141,053,033 are estimated as follows (each municipality to which 2% or more of the aggregate assessments applies is separately shown):

City or Town	Estimated Amount	Percent
Boston	$ 60,018,066	42.55%
Brookline	5,148,436	3.65
Cambridge	7,066,757	5.01
Malden	3,286,536	2.33
Medford	3,836,642	2.72
Newton	4,739,382	3.36
Quincy	3,737,905	2.65
Revere	2,990,324	2.12
Somerville	4,809,908	3.41
All other 69 Cities and Towns	45,419,077	32.20
	$141,053,033	100.00%

Because the percentage shares vary from year to year on the basis of a number of factors, the relative shares of the assessments for subsequent years may not be exactly the same as those indicated above for the 1997 calendar year Net Cost of Service.

State Contract Assistance

The Commonwealth, acting by and through the Executive Office for Administration and Finance, is authorized to provide contract assistance to the Authority, to the extent appropriated, in reduction of the Net Cost of Service to be assessed on the cities and towns. To the extent the Authority's operations would otherwise have resulted in the total of such assessments on the cities and towns in the territory of the Authority being in excess of 102.5% of the prior year's assessments, the Commonwealth has provided contract assistance equal to any amount in excess of such 102.5%.

Financing Practice

Since the Authority regularly incurs a Net Cost of Service, it is necessary to meet its accruing Net Cost of Service during the year. It has been the general practice of the Authority to obtain such funds by its own temporary borrowings or advances from the State Treasurer on account of the current year's Net Cost of Service during the year, and in the following year to requisition from the Commonwealth reimbursement of the balance of its Net Cost of Service not already advanced.

The Authority currently has outstanding for current operating purposes $165,000,000 of its notes due February 27, 1998 and $160,000,000 of its notes due September 4, 1998 both on account of its 1997 Net Cost of Service.

Authorized and Outstanding Debt

The Authority is currently authorized by law to issue bonds, for capital purposes, other than refunding, and for certain specified purposes to an amount not exceeding the aggregate amount of $5,068,130,000 outstanding at any time. Such bonds are considered outstanding for debt limit purposes until actually paid at maturity or earlier redemption, and, for purposes of calculating the outstanding amount, take into account premium or discount, if any, on such bonds. Such bonds are outstanding as of February 1, 1998 in the amount of $2,681,326,729 with a face amount of $2,739,500,000. The Authority is also authorized to issue bonds for the purpose of refunding bonds. Such refunding bonds are outstanding as of February 1, 1998 in the amount of $1,500,520,000. The Authority is further authorized to issue temporary notes for operating purposes and such notes are outstanding as of February 1, 1998 in the amount of $325,000,000 and are due $165,000,000 on February 27, 1998 and $160,000,000 on September 4, 1998. The Authority is further authorized to issue notes in anticipation of bonds. There are $68,000,000 of such notes in the form of commercial paper outstanding as of February 12, 1998 and due at various times.

The principal amount of and interest on Authority obligations which mature through September 4, 1998 (excluding the Notes and any bonds refunded by the issuance of refunding bonds) are set forth in the following table:

Month Payable	Principal and Interest (rounded to nearest $1,000)	
Bonds:		
March , 1998	$183,449,339	
September, 1998	88,725,318	
Subtotal Bonds	$272,174,657	(1)
Notes:		
Commercial Paper (1 to 270 days)	$68,000,000	(2)
February, 1998	172,012,500	
September, 1998	167,200,000	
Subtotal Notes	$407,212,500	
Total	$679,387,157	

(1) $244,957,191 will be funded by contract assistance from the Commonwealth.

(2) Represents principal amount only. The amount of interest payable on the commercial paper fluctuates according to the various interest rates and maturity dates applicable thereto.

In addition to the foregoing obligations, the Authority is responsible for the payment of obligations issued by the Boston Metropolitan District. Such obligations are outstanding as of February 1, 1998 in the principal amount of approximately $38,992,000. The debt service relating to these obligations is taken into account in computing the Authority's Net Cost of Service. The schedule of payments by the Authority on account of these obligations through September 4, 1998, is set forth in the following table:

Boston Metropolitan District

Month Payable	Principal and Interest (rounded to nearest $1,000)
May, 1998	$1,161,927
November, 1998	3,950,927
	$5,112,854

Long-Term Leases

The Authority has entered into five long-term leases providing for the lease of equipment to the Authority. Under the terms of such leases the Authority is required to make annual rental payments of approximately $14.0 million in the years 1998 to 2013. Pursuant to Section 28 of the Act, the Authority has entered into agreements with the Commonwealth, acting by and through its Executive Office for Administration and Finance, whereby the Commonwealth has agreed, subject to appropriation, to pay to the Authority Contract Assistance equal to 90% of the annual rental payments due under the leases.

Financial Statements

See Appendix B for audited financial statements of the Authority as of June 30, 1997 and June 30, 1996.

The Act also requires the Department of the State Auditor biennially to audit the accounts of the Authority. Copies of audit reports may be obtained from the State Auditor's Office, State House, Boston, Massachusetts 02133.

Retirement Plan

The Massachusetts Bay Transportation Authority Retirement Fund (the "Retirement Plan") is an independent pension plan provided for by Chapter 544 of the Acts of 1947 of the Commonwealth, as amended, and is not tied to any other public pension plan in the Commonwealth. It became effective as of January 1, 1948 and is a contributory plan. Since its inception, the total contribution rate (Authority plus employees) has been set at a level which would fully fund the normal cost of the plan each year (the cost of that portion of the retirement benefits earned in such year), plus an additional amount sufficient to pay computed interest on the unfunded liability for prior service costs (the cost of retirement benefits earned prior to January 1, 1948 plus the cost of retirement benefit increases implemented in years subsequent to the years in which such benefit was earned) and the administrative costs of the plan.

The Retirement Plan is a product of negotiation with Local 589 Amalgamated Transit Union, the union representing nearly 3,600 Authority employees ("Local 589"). Local 589 negotiates with the Authority on behalf of all members, both Local 589 members and non-Local 589 members. Currently the Authority's contribution to the plan is at the rate of 12.0135% of compensation, with employees' contributions at 4.0%. The total cost of the plan to the Authority for the past several years and the actual dollar amounts contributed are as follows:

1996	$31,453,565
1995	30,018,930
1994	33,833,872
1993	32,225,519
1992	31,718,517
1991	33,986,579
1990	32,446,377

The actuarial pension liability of the plan is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of future normal costs of the plan (the level, ongoing cost of the plan excluding any past deficiency). The unfunded actuarial pension liability is the amount by which the actuarial pension liability exceeds the accumulated assets of the plan and represents the amount that would have to be contributed in the future in addition to annual normal costs in order for the plan to be fully funded. As of December 31, 1995, the date of the most recent actuarial valuation, the present value of all benefits to be paid under the plan to existing pensioners and current employees was $1,493,248,932 and the present value of future normal costs of the plan was $294,504,427, leaving an actuarial pension liability of $1,198,744,505. Since the adjusted value of the fund assets as of December 31, 1995 was $1,050,102,718, the unfunded actuarial pension liability of the plan as of such date was $148,641,787. As of December 31, 1995, the actuarially computed value of vested benefits (the present value of all benefits which had vested on such date) was $885,676,041 or $164,426,677 less than the adjusted value of fund assets. The market value of fund assets as of December 31, 1995 was $1,203,573,621. Estimates of actuarial liabilities depend on the underlying actuarial assumptions and reference is made to the most recent actuarial report (dated as of December 31, 1995) relating to the plan for a description of those assumptions. Copies of such report may be obtained from John J. Gallahue, Executive Director, Massachusetts Bay Transportation Authority Retirement Fund, Suite 1700, 99 Summer Street, Boston, Massachusetts 02110.

The Authority has also entered into agreements with certain salaried employees to provide a supplemental deferred compensation retirement benefit. In order to receive the benefits, an employee must have at least ten years of service and be eligible for retirement under the provisions of the contributory pension plan. In calendar year 1996 the expenditure for such supplemental pensions was estimated to be $2.975 million.

The Authority also has a defined contribution retirement plan for executive employees which is an alternative to the Retirement Plan. Authority contributions made to this plan were estimated at $640,266 in calendar year 1996.

The Authority is also obligated to pay life and medical insurance costs and other benefits to certain retired employees. In calendar year 1996 the expenditures for these benefits were estimated to be approximately $21.0 million.

In addition, the Authority has negotiated a separate pension plan for its Police Association which recently has been divided into two separate bargaining units, the Patrolmen and the Sergeants associations, both of which are covered by the Police Retirement Plan, which became effective January 1, 1984. It is also a contributory plan, with the Authority currently contributing 11.03% of compensation and employees 4.17%. There are currently approximately 185 individuals covered by this pension plan. The cost of the plan to the Authority in calendar year 1996 was estimated at $837,782.

Copies of the annual reports of the Retirement Plan may be obtained from John J. Gallahue, Executive Director, Massachusetts Bay Transportation Authority Retirement Fund, Suite 1700, 99 Summer Street, Boston, Massachusetts 02110. Copies of the annual report of the MBTA Police Association Retirement Plan may be obtained from Sidney L. Chase, Executive Director, Massachusetts Bay Transportation Authority Police Association Retirement Plan, P.O. Box 6807, Broad and Water Streets, Boston, Massachusetts 02102.

Employee Relations

As of June 30, 1997, the Authority employed approximately 5,800 full-time and approximately 550 part-time employees. The Act gives the Board of Directors the authority to bargain collectively with labor organizations representing employees of the Authority, with arbitration as the final step if the parties are unable to reach a negotiated settlement, and to enter into agreements with such organizations relative to the wages, salaries, hours, working conditions, health benefits, pensions and retirement allowances of such employees. The Act provides, however, that the directors shall have no right to enter into collective bargaining agreements with respect to matters of inherent management rights. As defined in the Act, some of those rights include the right to direct, appoint, employ, assign and promote employees, to classify the various positions of the Authority and ascribe duties and standards of productivity therefor, to use part-time employees, to assign and apportion overtime, and to determine whether goods or services should be competitively acquired. A November, 1995 amendment to the Act provides for prospective negotiation over the use of seniority in assignment and promotion decisions. Since the issuance of an arbitration decision in 1994, the Authority has successfully negotiated labor contracts covering all of its twenty-seven (27) bargaining units.

The Authority's collective bargaining agreement with Local 589, which was approved by the Board on March 29, 1995 and covered three years (July 1, 1994 through June 30, 1997) set the basis for agreements with the other unions. The Local 589 agreement provided for wage increases in accordance with the following schedule: July 1, 1994 - 1.0%; January 1, 1995 - 1.0%; July 1, 1995 - 1.40%; January 1, 1996 - 1.45%; July 1, 1996 - 1.65%; and January 1, 1997 - 1.45%, for an arithmetic total wage increase over the term of 7.95% and a compounded increase of 8.22%. In addition, the agreement provided for a ten percent (10%) reduction in the starting pay rate for employees in transportation positions and for the establishment of a managed health care program for workers' compensation recipients.

The Authority has commenced negotiations with other unions which had previously agreed to terms through June, 1994. To date, eight unions, namely, Building and Trades, Local 453, Local 105, Local 264, Local 6, Local 651, Police Association and the Alliances, have agreed to terms similar to those reached with Local 589 for the period July 1, 1994 through June 30, 1997.

The Authority is currently in negotiations with Local 589 for a successor labor agreement which will establish the collective bargaining pattern for the remaining labor unions.

The Retirement Plan produced a reduction in the Authority's ongoing contribution from 12.98% of straight time pay to 12.03%. Retirees receive specified pension benefit improvements, and the Authority obtained the right to reduce automatically its pension contribution by 55% of any pension fund surplus produced in the second and third year of the agreement. This automatic pension contribution reduction produced an Authority contribution rate of 12.0135% effective July 1, 1996.

Litigation

The Authority's General Counsel is not aware of any cases, other than the cases mentioned below, that are material to the financial information concerning the Authority contained herein.

On October 1, 1993, the Authority filed suit against Deloitte & Touche seeking damages arising out of the defendants' breach of contract to provide the Authority with an operating, integrated financial management computer system. The Authority seeks to recover damages of $14 million. In its answer Deloitte & Touche claimed that the Authority breached the contract and that it is entitled to recover damages of over $16 million. The case is to be tried before a jury in Suffolk Superior Court as Civil Action Number 93-5662. The General Counsel does not expect a decision materially adverse to the Authority's financial interests. The trial has been rescheduled at the defendant's request.

On March 23, 1995, the MBTA Police Officers and Sergeants filed a class action suit challenging the Authority's federally mandated Drug and Alcohol Policy and Testing Program. On April 6, 1995, the Massachusetts Superior Court enjoined enforcement of the Policy as to MBTA Police. The Authority removed the case to federal court on April 24, 1995. The parties expect that the case will be scheduled to be heard on cross motions for partial summary judgment on the issue of federal pre-emption of inconsistent state law as to random drug testing in late 1997. In the opinion of the General Counsel, a decision in favor of the plaintiffs is not likely. However, if the plaintiffs prevail, the Authority's ability to apply for and receive future federal mass transportation assistance may be affected under the Omnibus Transportation Employee Testing Act of 1991 (Pub. L. No. 102-143, Title V, 105 Stat. 962).

The Authority is also engaged in numerous matters of routine litigation. These matters include tort and other claims where the Authority's liability is in whole or in part self-insured. In the opinion of the Authority's General Counsel, these matters are not reasonably expected to require amounts to be paid which in the aggregate would be material to the financial information contained herein. Other cases and claims include disputes with contractors and others arising out of the Authority's capital construction program. In the opinion of the Authority's General Counsel, any amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other moneys available to the Authority for the respective projects.

Legislation

Legislation was enacted at the end of the 1989 legislative session dealing with certain matters in relation to the Authority. Such legislation provided, among other things, that the Authority shall achieve a revenue recovery ratio of income received by the Authority equal to one-third of the Authority's annual operating budget, exclusive of debt service and private carrier subsidies.

Various other bills have also been filed or are expected to be filed in the state legislature this year, as in prior years, relating, among other things, to (i) changing the manner of assessments of the annual Net Cost of Service on the cities and towns included in the territory of the Authority, (ii) the withdrawal of various towns from the Authority, (iii) the payment of increased or decreased amounts of the annual Net Cost of Service by the Commonwealth, (iv) changing the organizational and financial structure of the Authority, (v) changing the collective bargaining process relating to the Authority, and (vi) changing the structure and the powers of the Advisory Board.

On October 2, 1997, Acting Governor Paul Cellucci filed legislation that would authorize the Authority to issue an additional $230.7 million of bonds supported by Commonwealth contract assistance for various Authority projects. The legislation would also authorize the Authority to issue

bonds payable solely from its own revenues. The legislation currently is being considered by the Committee on Transportation.

Such bills are, of course, subject to the legislative process and no prediction can be made as to whether or not such bills will be enacted into law. In addition, any such legislation enacted subsequent to the issuance of the Notes would with respect to the Notes be subject to the provisions of Article 1, Section 10 of the United States Constitution prohibiting any law impairing the obligation of contracts and therefore, could not unconstitutionally impair the contract of the holders of the Notes.

Competitive Contracting Initiatives

The Authority has been and continues to be in the process of evaluating competitive contracting for certain administrative and operational functions, including real estate management and bus operations. In June, 1996, the Board approved a contract with Transit Realty Associates (TRA) for property management and real estate development. TRA has begun work for the Authority under this contract, and expects to generate additional revenues to the Authority from enhanced asset management and development, additional concessions, lease revenues and the sale of property. In addition, the Authority has awarded a management consulting contract to Hamilton, Rabinovitz & Alschuler to assist the Authority with its efforts to implement an overall strategic plan for reform and cost savings. The selection of one or more private carriers for bus operations was delayed as the Authority sought to stimulate competition among bidders and maximize potential savings. The bidding process has now been completed, and bids were received to operate the Charlestown/Fellsway and Quincy routes. The proposals have been approved by the Board. The State Auditor has notified the Authority of his objection regarding the award of these contracts, and the Authority has filed litigation challenging such objection. If awarded, it is anticipated that the savings to the Authority for the services provided in both proposals will be approximately $20 million over five years. The Commonwealth's fiscal 1998 budget, as enacted by the Legislature, contained a provision that would mandate a study to be conducted by the Authority relative to its current bus service operations, with a report to be filed with the Legislature by October 1, 1998.

Flood Disaster

In October, 1996, Massachusetts experienced a high-intensity rain storm which caused disastrous flood conditions throughout the greater Boston area, as well as to some of the Authority's facilities. The most extensive damage occurred to the Green Line infrastructure; specifically to the signals, traction power, power substations, radio and communication systems, fan rooms, escalators, ballast and track. As a result, there were substantial incidental costs incurred by the Authority in response to the flooding. These costs included the utilization of buses and added personnel to provide Green Line replacement service, implementation of an emergency plan to remove debris, pump stations to remove water and repairs required at the Authority's facilities.

Presently the Authority is working with the Federal Emergency Management Agency (FEMA) on the preparation of Damage Survey Reports to identify all costs eligible for federal reimbursement. Damage estimates of up to $40 million are anticipated and the Authority is applying for 75% reimbursement of these costs.

Federal Operating Assistance

The Authority's federal operating assistance was $8.4 million in federal fiscal year 1997 and is expected to be $1.5 million in fiscal year 1998. However, as a result of the federal fiscal year 1998 appropriations process, FTA will allow grantees, including the Authority, to utilize federal capital assistance for certain maintenance expenses. The Authority does not anticipate that such decline or any future further decline in federal operating assistance will have any material effect on the Authority's Net Cost of Service.

LEGALITY OF NOTES FOR INVESTMENT

Bonds and notes issued under the Act are securities in which all public officers and public bodies of the commonwealth and its political subdivisions, all insurance companies, trust companies, banking associations, savings banks, cooperative banks, investment companies, executors, trustees and other fiduciaries, and all other persons whatsoever who are now or may hereafter be authorized to invest in bonds or notes or other obligations of a similar nature may properly and legally invest funds, including capital, deposits or other funds in their control or belonging to them. Such bonds and notes are securities which may properly and legally be deposited with and received by any state or municipal officer or any agency or political subdivision of the Commonwealth for any purpose for which the deposit of bonds or other obligations of the Commonwealth now or may hereafter be authorized by law.

NO LITIGATION CERTIFICATE

At the time of original delivery of and payment for the Notes, the Authority shall deliver, or cause to be delivered, a certificate of the General Counsel of the Authority to the effect that no litigation is pending or, to the best of his knowledge, threatened affecting the validity of or security for the Notes.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Notes will not be included in the gross income of holders of the Notes for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Notes in order to assure that interest on the Notes is and continues to be excluded from the gross income of the holders of the Notes. Failure to comply with certain of such requirements could cause interest on the Notes to be included in the gross income of holders of the Notes retroactive to the date of issuance of the Notes. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds of the Notes and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Authority has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the Notes are not "private activity bonds" under the Code, interest on the Notes will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Notes will be included in "adjusted current earnings" of corporate holders of the Notes and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to other federal tax consequences arising with respect to the Notes. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Notes: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Notes or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Notes, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) of the Code reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Notes, (iii) interest on the Notes earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Notes, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Notes, and (vi) receipt of investment earnings, including interest on the Notes, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(i) of the Code.

In the opinion of Bond Counsel, interest on the Notes and any profit on the sale thereof are exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Notes. Prospective purchasers should be aware, however, that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Notes or the income therefrom under the laws of any state other than Massachusetts.

CONTINUING DISCLOSURE

In order to assist bidders in complying with paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission, the Authority will undertake in the Notes to provide notice of certain events. In particular, the Authority will submit in a timely manner to the Municipal Securities Rulemaking Board and to the applicable State Information Depository, if any, notice of any of the following events with respect to the Notes (numbered in accordance with the provisions of aforesaid Rule), if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties*;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties*;

(v) substitution of credit or liquidity providers, or their failure to perform*;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to the rights of security holders;

(viii) bond calls*;

(ix) defeasances*;

(x) release, substitution or sale of property securing repayment of the securities*; and

(xi) rating changes.

* Not applicable to the Notes, since there is no reserve fund or credit enhancement securing the Notes, the Notes are not subject to redemption, and there is no property securing repayment of the Notes that could be released, substituted or sold.

To date, the Authority has complied with all of its continuing disclosure undertakings.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Notes are subject to the approval of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel to the Authority, and of Krokidas & Bluestein, Boston, Massachusetts, Co-Bond Counsel to the Authority. The unqualified approving opinions of such counsel, in substantially the forms attached hereto as Appendices C and D, will be delivered at settlement. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Commonwealth Disclosure Counsel.

RATINGS

The Notes have been assigned ratings by Fitch IBCA Inc. ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's ("S&P"). The rating assigned by Fitch for the Notes is "__". The rating assigned by Moody's for the Notes is "__". The rating assigned by S&P for the Notes is "_" .

Such ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency furnishing the same. There is no assurance that a rating will continue for any given period of time or that a rating will not be revised or withdrawn entirely by any or all of such rating agencies, if, in its or their judgment, circumstances so warrant. Any downward revision or withdrawal of a rating could have an adverse effect on the market prices of the Notes.

COMPETITIVE SALE OF NOTES

The Notes will be offered for sale at competitive bidding on February 24, 1998. This Preliminary Official Statement has been deemed final as of its date by the Authority in accordance with Rule 15c2-12 of the Securities and Exchange Commission. After the Notes have been awarded, the Authority will prepare a final Official Statement (the "Final Official Statement"), which will be a "final official statement" within the meaning of Rule 15c2-12. The Final Official Statement will include, among other matters, the identity of the winning bidder or bidders and the managers of the syndicate or syndicates, if any, submitting the winning bid or bids, the purchase price of the Notes from the Authority and other information regarding the interest rate and reoffering price or yield of the Notes, as supplied by the winning bidder.

ADDITIONAL INFORMATION

Questions regarding this Official Statement or requests for additional information concerning the Authority should be directed to Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, 10 Park Plaza, Room 8450, Boston, Massachusetts 02116, telephone (617) 222-3216. Questions regarding legal matters should be directed to John R. Regier or Meghan B. Burke, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 542-6000.

Other current information relating to the Authority, including its most recent audited annual financial statements, may be obtained by writing to Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, 10 Park Plaza, Room 8450, Boston, Massachusetts 02116.

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth, including the Authority, at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which becomes available in January of the following fiscal year. Copies of the CAFR may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

Questions regarding Appendix A or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Catherine Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040.

DISCLOSURE CERTIFICATES

At the time of settlement of the issue, the General Manager and Treasurer-Controller of the Authority will furnish a certificate to the purchasers to the effect that, except for the material included in Appendices A, C and D to the best of their knowledge and belief, the Preliminary Official Statement as of the date of the sale and the Official Statement as of the date of the sale and as of the date of settlement of the issue do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they are made, not misleading.

At the time of settlement of the issue, the Treasurer and Receiver-General and the Secretary of Administration and Finance of the Commonwealth will deliver a certificate certifying that to the best of their knowledge and belief, the information pertaining to the Commonwealth set forth in Appendix A as of the date of the sale with respect to the Preliminary Official Statement and as of the date of the sale and the date of settlement of the issue with respect to the Official Statement does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. Prior to the delivery of said certificate, the Treasurer and Receiver-General and the Secretary of Administration and Finance will have received similar certificates from various officials of the Commonwealth with respect to the portions of the Information Statement relating to their areas of supervision.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

By______________________________________
Robert H. Prince
General Manager

By______________________________________
Wesley G. Wallace, Jr.
Treasurer-Controller

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THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated February 13, 1998

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

Argeo Paul Cellucci	Acting Governor and Lieutenant Governor
William F. Galvin	Secretary of the Commonwealth
L. Scott Harshbarger	Attorney General
Joseph D. Malone	Treasurer and Receiver-General
A. Joseph DeNucci	Auditor

LEGISLATIVE OFFICERS

Thomas F. Birmingham	President of the Senate
Thomas M. Finneran	Speaker of the House

TABLE OF CONTENTS

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

February 13, 1998

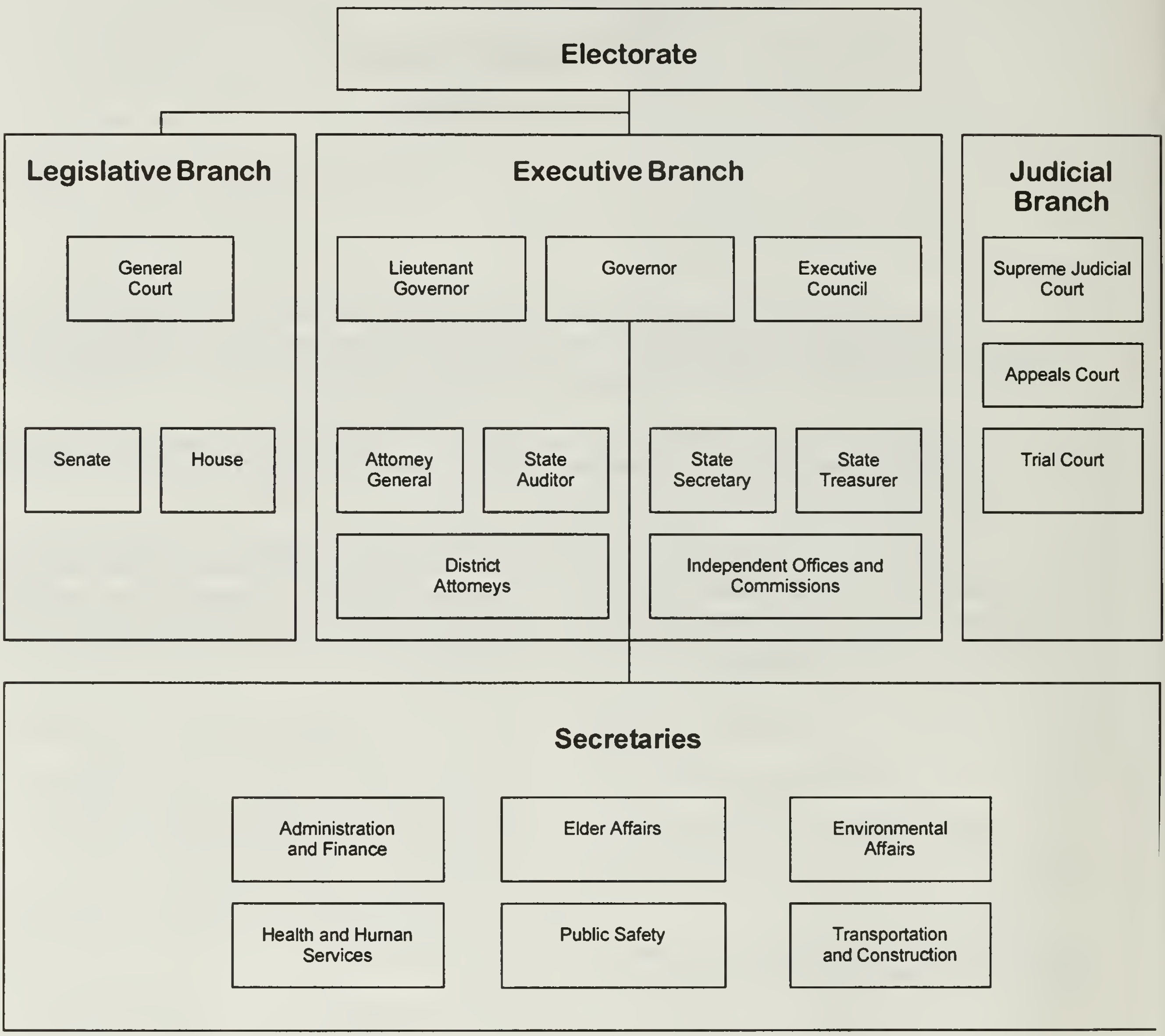
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information Statement contains information only through its date and should be read in its entirety.

The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by questions of legislative policy and the financial conditions of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the fiscal 1997 Statutory Basis Financial Report and the fiscal 1997 Comprehensive Annual Financial Report (GAAP basis), respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary, as indicated by the chart below.



Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The next election for these officers will be held in November, 1998.

On July 28, 1997, Governor William F. Weld announced that he would resign the next day, and on July 29, 1997, he submitted his formal resignation. Under the state constitution, Lieutenant Governor Argeo Paul Cellucci will serve as Acting Governor until the current gubernatorial term expires in January, 1999.

The Executive, or Governor's, Council consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants (other than for debt service) prepared by the Comptroller for payment by the State Treasurer.

Also within the Executive Branch are certain independent offices, each of which performs a defined function, such as the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance.

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction. Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development. These departments, as well as the Board of Higher Education, had held secretariat status prior to the Legislature's action on the reorganization proposals filed with the Governor's fiscal 1997 budget proposal.

Approximately 39.4% of the Commonwealth's fiscal 1998 expenditures in the budgeted operating funds are for programs within the Executive Office of Health and Human Services. The Executive Office for Administration and Finance accounts for approximately 6.2% of such expenditures, the Executive Office of Public Safety for approximately 4.8% and the Executive Office of Transportation and Construction for approximately 3.6%. The remaining secretariats account for approximately 1.8% of such expenditures. Spending for education, which is generally overseen by the state Board of Education or the state Board of Higher Education, accounts for 20.1% of the fiscal 1998 budget, and spending for the Department of Housing and Community Development, the Department of Economic Development, the Department of Consumer Affairs and Business Regulation, and the Department of Labor and Workforce Development totals 1.4% in fiscal 1998.

Approximately 4.2% of the Commonwealth's fiscal 1998 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 18.2% of fiscal 1998 expenditures, including 5.5% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 6.5% for debt service, 5.7% for pension costs, and 0.5% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

The remaining 0.6% of fiscal 1998 expenditures is reserved for contingencies.

The Governor's chief fiscal officer is the Secretary of Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth's budget and monitoring of all agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth's tax laws and collection of tax revenues through the Department of Revenue for remittance to the State Treasurer; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs, and negotiation of collective bargaining agreements with certain of the Commonwealth's public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including information technology services.

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two

persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth has retained the independent public accounting firm of Deloitte & Touche to audit the Commonwealth's general purpose financial statements and to conduct the state single audit. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds (other than the state employee and teacher pension funds), including all cash receipts; (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state's accounts; and (iv) the issuance of all debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds.

In addition to these responsibilities, the State Treasurer serves as Chairman of the Massachusetts Lottery Commission, the State Board of Retirement, the Pension Reserves Investment Management Board, the Emergency Finance Board and the Massachusetts Water Pollution Abatement Trust. The State Treasurer also serves as a member of numerous other state boards and commissions.

State Auditor. The State Auditor is charged with improving the efficiency of state government by auditing the administration and expenditure of public funds and reporting the findings to the public. The State Auditor reviews the activities and operations of approximately 750 state entities and contract compliance of private vendors doing business with the Commonwealth. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

Attorney General. The Attorney General represents the Commonwealth in all legal proceedings in both the state and federal courts, including defending the Commonwealth in actions in which a state law or executive action is challenged. The Attorney General also brings actions to enforce environmental and consumer protection statutes, among others, and represents the Commonwealth in public utility and automobile and health insurance rate-setting procedures. The Attorney General works in conjunction with the general counsel of the various state agencies and executive departments to coordinate and monitor all pending litigation.

State Secretary. The Secretary of the Commonwealth is responsible for collection and storage of public records and archives, securities regulation, state elections, administration of state lobbying laws and custody of the seal of the Commonwealth.

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year. The joint rules of the House and Senate require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

The House of Representatives must originate any bill that imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for approval or veto; the General Court may override the Governor's veto of any bill by a two-thirds vote of each house. The Governor also has the power to return a bill to the branch of the Legislature in which it was originated with a recommendation that certain amendments be made therein; such bill is then before the Legislature and is subject to amendment or re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend.

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and, in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the General Court and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. The Commonwealth has significant operational or financial relationships, or both, as defined by this statement, with 37 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, certain regional transit authorities, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth guarantees debt issued by two higher education building authorities and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. The Commonwealth has also guaranteed certain bond anticipation notes issued by the Massachusetts Turnpike Authority, but the Commonwealth has no liability for the Turnpike Authority's bonds. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The Commonwealth also appropriates budgetary funds for certain debt service payments of the Massachusetts Water Pollution Abatement Trust. See "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Industrial Finance Agency, the Massachusetts Port Authority and the Massachusetts Water Resources Authority. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1997 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

Local Government

Below the level of state government are 12 county governments responsible for various functions, principally the operation of houses of correction and registries of deeds. There are 14 counties in Massachusetts, but county government has been abolished in two of them and is scheduled to terminate in two others. Under legislation enacted in 1996, Franklin County government terminated on July 1, 1997 in favor of a regional council of governments. Legislation approved by Governor Weld on July 11, 1997 abolished Middlesex County government on that date and provided for the abolition of county government in Hampden and Worcester Counties on July 1, 1998 (or sooner, if such county defaults on a bond or note). Under the 1997 legislation, all functions, duties and responsibilities of the affected counties are transferred to the Commonwealth. As of the date of abolition of an affected county's government, all valid liabilities and debts of such county which are in force immediately before such date become obligations of the Commonwealth, and all assets and revenues of such county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the Commonwealth's costs from the cities and towns within each such county over a period not to exceed 25 years. Governor Weld vetoed provisions in the legislation that would have placed responsibility for county retirees on cities and towns rather than the Commonwealth, and indicated that he would file legislation providing for state assumption of such pension costs. On July 15, 1997, the House of Representatives overrode Governor Weld's veto of such provisions, but the Senate has not acted on the Governor's veto message. Governor Weld also vetoed provisions that would have created county charter commissions in certain counties, indicating that he favored legislation setting a date certain for the abolition of all county government and a mechanism by which cities and towns that wish to do so may establish alternative regional entities. The legislation approved by Governor Weld in July, 1997 established a task force on the valuation of county assets and liabilities that was charged with compiling an inventory and providing for the valuation of all property of all counties in the Commonwealth for the purposes of considering the abolition of county government and the transfer of its functions, assets and liabilities to the Commonwealth. The eleven-member task force, consisting of eight members of the Legislature, the Secretary of Administration and Finance, the Inspector General and the State Auditor, had a report filing deadline of February 1, 1998; the task force has convened and has begun planning for the valuation. On July 17, 1997, Governor Weld filed legislation that would abolish all county governments by July 1, 1999 and that would require the state employees' retirement system to absorb the pension costs associated with county retirees. The legislation is being considered by the Legislature's Committee on Counties.

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one-

or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services and investment income) and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures have been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, frequently including petitions relating to tax and fiscal policy. A number of these have been approved and become law; others may appear on the ballot in the 1998 general election. See particularly "COMMONWEALTH REVENUES—State Taxes; *Income Tax*," "—Federal and Other Non-Tax Revenues" and "—Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid" and "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System."

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*." The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds.

Year-end Surpluses. State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state's capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes. Prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For each of the 1995 and 1996 fiscal years, the Legislature overrode the general provisions governing deposits to or the use of excess

balances in the Stabilization Fund by the enactment of one-time modifications. See "FINANCIAL RESULTS—Selected Financial Data—Statutory Basis."

Overview of Budgetary Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget at the administrative level begins early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in late January (or, in the case of a newly elected Governor, not later than March) with the Governor's submission to the Legislature of a budget recommendation for the fiscal year commencing in the ensuing July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures are to be defrayed. By statute, the Legislature and the Governor must approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, a legislative conference committee generally develops a compromise budget for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items. The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

In years in which the General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items.

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary of Administration and Finance, and the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES—Tax Revenue Forecasting." In addition, each department head is required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for his or her department from the federal government or other sources or whenever it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies. The Supreme Judicial Court has ruled that the Governor's authority to reduce allotments of appropriated funds extends only to appropriations of funds to state agencies under the Governor's control and not, for example, to local aid.

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that sufficient cash is available to meet the Commonwealth's obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that moneys are expended consistently with statutory and public purposes. Two independently elected Executive Branch officials, the State Treasurer and the State Auditor, conduct the cash management and independent audit

functions, respectively. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

Cash Management Practices of State Treasurer

The State Treasurer is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made pursuant to a warrant approved by the Governor's Council. The Comptroller prepares certificates which, with the advice and consent of the Governor's Council and approval of the Governor, become the warrant to the State Treasurer. Once the warrant is approved, the State Treasurer's office disburses the moneys.

The Cash Management Division of the State Treasurer's office accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer is required to prepare and submit quarterly to the House and Senate Committees on Ways and Means official cash flow projections for the current fiscal year. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also includes a billing and accounts receivable subsystem to control the billing, collection and management of its non-tax revenues.

Expenditure Controls. The Comptroller requires that the amount of all obligations under purchase orders, contracts and other commitments for the expenditures of moneys be recorded as encumbrances. Once encumbered, these amounts are not available to support additional spending commitments. As a result of these encumbrances, spending agencies can use MMARS to determine at any given time the amount of their appropriations available for future commitments.

The Comptroller is responsible for compiling expenditure requests into the certificates for approval by the Governor's Council. In preparing the certificates which become the warrant, the Comptroller's office has systems in place to ensure that the necessary moneys for payment have been both appropriated by the Legislature and allotted by the Governor in each account and subaccount. By law, certain obligations may be placed upon the warrant even if the supporting appropriation or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution from the warrant requirement, and Medicaid payments, which are mandated by federal law.

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state

finance law and sound fiscal management practices. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

Internal Controls. The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

Statutory Basis of Accounting. The Commonwealth adopts its budget and maintains its financial information on the basis of state finance law (the "statutory basis of accounting" or "statutory basis"). The emphasis is on accountability and budgetary control over appropriations.

Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including federal reimbursements receivable with respect to expenditures already made. Expenditures are measured on a modified cash basis with actual cash disbursements as confirmed by the State Treasurer, except that encumbrances for goods or services received at or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

GAAP Basis of Accounting. Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating inter-period equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS—Selected Financial Data—GAAP Basis" and Exhibit C (Fiscal 1997 Comprehensive Annual Financial Report).

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and one utilizing the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The Statutory Basis Financial Report and CAFR for fiscal 1997 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 1997 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's home page located at www.state.ma.us/osc. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to render opinions on the Commonwealth's financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1993 through fiscal 1996, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Any such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Commonwealth has submitted the fiscal 1997 CAFR to the GFOA. The Comptroller believes that the 1997 CAFR will conform to the Certificate of Achievement program requirements.

Overview of Capital Spending Process and Controls

Capital Projects Fund Structure. Capital projects funds are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from capital projects funds. Such capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements, contributions from third parties (such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority) and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, bond authorizations to incur debt for specific purposes. See "COMMONWEALTH BOND AND NOTE LIABILITIES." Pursuant to state finance law, the Governor, through the Secretary of Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

Five-Year Capital Spending Plan. The Executive Office for Administration and Finance maintains a rolling five-year capital spending plan. The plan, which is an administrative guideline and subject to amendment at any time, sets forth capital spending allocations for a period of five fiscal years and establishes capital spending limits. The policy objective of the five-year plan is to limit the Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. As noted above, the Governor, through the Secretary of Administration and Finance, may control the rate at which capital expenditures occur by utilizing his discretion over the allotment of capital appropriations, and therefore control the amount of bonds issued to finance such expenditures. See "COMMONWEALTH CAPITAL SPENDING" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

Capital Spending and Controls. In conjunction with the development of the five-year capital spending plan, a number of accounting procedures and fiscal controls have been instituted to limit agency capital spending to the levels established by the plan. Since July 1, 1991, all agency capital spending has been tracked against the five-year plan on both a cash and an encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the independent public accounting firm of Deloitte & Touche, the State Auditor performs a significant portion of the audit work relating to the state single audit.

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the

Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid; *Proposition 2½*."

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The Statutory Basis Financial Report for fiscal 1997 is included herein by reference as Exhibit B. The Comprehensive Annual Financial Report for fiscal 1997 is included herein by reference as Exhibit C.

Selected Financial Data—Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1993 through 1997, and estimates for fiscal 1998 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1998 budget.

In fiscal 1997, the Commonwealth reported 51 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the Massachusetts Bay Transportation Authority and regional transit authorities. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

Budgeted Operating Funds Operations -- Statutory Basis
(in millions)

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Beginning Fund Balances						
Reserved or Designated	$236.2	$110.4	$79.3	$128.1	$263.4	$225.1
Tax Reduction Fund	-	-	-	-	231.7 (5)	91.8
Stabilization Fund (1)	230.4	309.5	382.9	425.4	543.3	799.3
Undesignated	82.8	142.6	127.1	172.5	134.7 (6)	149.8
Total	549.4	562.5	589.3	726.0	1,173.0	1,266.0 (7)
Revenues and Other Sources						
Taxes	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	13,154.0 (8)
Federal Reimbursements (2)	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,374.8
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,273.4
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	778.5	853.9	981.0	1,031.1	1,018.0	946.3
Budgeted Revenues and Other Sources	14,709.6	15,549.7	16,387.2	17,327.5	18,170.0	18,748.5
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources (3)	358.7	289.1	399.7	896.2	901.8	372.8
Total Revenues and Other Sources	15,205.7	15,979.2	16,930.8	18,371.3	19,223.3	19,273.4
Expenditures and Uses						
Programs and Services	12,683.6	13,416.2	14,010.3	14,650.7	15,218.8	16,481.3
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,224.2
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,064.7
Interfund Transfers to Non-budgeted Funds and Other Uses	5.1	48.4	40.4	42.2	385.5	78.1
Budgeted Expenditures and Other Uses	14,696.4	15,522.9	16,250.5	16,881.1	17,949.0	18,848.3
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses (3)	358.7	289.1	399.7	896.2	901.8	372.8
Total Expenditures and Other Uses	15,192.6	15,952.4	16,794.1	17,924.9	19,002.3	19,373.2
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	13.1	26.8	136.7	446.4	221.0	(99.8)
Transfer of Excess to Capital Projects Fund	--	--	--	--	--	(22.6)(9)
Net Balance	--	--	--	--	--	(122.3)
Ending Fund Balances						
Reserved or Designated	110.4	79.3	128.1	263.4	225.1	26.1
Tax Reduction Fund	--	--	--	231.7 (5)	91.8	3.5
Stabilization Fund (1)	309.5	382.9	425.4 (4)	543.3	799.3	855.6
Undesignated	142.6	127.1	172.5	134.0	277.8	258.6
Total	$562.5	$589.3	$726.0	$1,172.4	$1,394.0 (7)	$1,143.8

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

1. Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
2. Includes $236.3 million for fiscal 1993, $247.8 million for fiscal 1994, $231.9 million for fiscal 1995, $212.5 million for fiscal 1996, $221.0 million for fiscal 1997 and an estimated $288.5 million for fiscal 1998 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals.
3. Interfund transfers represent accounting transfers which reallocate resources among funds. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $76.9 million, $65.4 million, $27.9 million, $177.4 million, $234.3 million in fiscal 1993, 1994, 1995, 1996 and 1997, respectively. See "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.
4. Reflects one-time provisions enacted for fiscal 1995 requiring transfer of approximately $11.1 million (which would otherwise have been deposited in the Stabilization Fund) to a special fund for subsidies to local units of government for costs of water pollution abatement projects.

5. Represents excess amount of $81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a $150 million appropriation made to the Tax Reduction Fund.
6. The difference between the fiscal 1996 ending fund balance and the fiscal 1997 beginning fund balance is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
7. Reflects several transfers mandated by the Legislature to be charged to fiscal 1997, including the transfer of (i) $229.8 million to a Capital Investment Trust Fund to finance certain specified capital expenditures (the spending authorization will expire at the end of fiscal 1999 and any unexpended balances will be transferred to the Stabilization Fund), (ii) $100 million to the Stabilization Fund (in addition to the $134.3 million transfer required by state finance law), (iii) $128 million to a Caseload Increase Mitigation Fund to finance Department of Transitional Assistance programs in the event caseloads increase beyond budgetarily contemplated levels and (iv) $20.2 million to the Massachusetts Water Pollution Abatement Trust for state capitalization grants for the state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust"). The Comptroller transferred $89.5 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*"); such transfer is shown in this table as a fiscal 1997 interfund transfer. No transfer was made to the Tax Reduction Fund, because the balance in the Stabilization Fund did not reach the statutory ceiling ($908.5 million). The difference between the fiscal 1997 ending fund balance and the fiscal 1998 beginning fund balance reflects Acting Governor Cellucci's proposal, filed on January 30, 1998, to transfer the $128 million Caseload Increase Mitigation Fund off-budget to a trust fund.
8. Reflects the fiscal 1998 impact of (i) $19.0 million in anticipated revenues from miscellaneous fees to be collected as a result of the convention center legislation approved on November 17, 1997, (ii) a reduction in tax revenue of an estimated $25.0 million as a result of the exemption of military pensions from state income tax, effective January 1, 1998, which was approved by the Acting Governor on November 6, 1997 and (iii) a change in the sales tax payment schedule ($140 million). Does not reflect the fiscal 1998 impact of Acting Governor Cellucci's proposed reduction of the tax rate on Part B personal income ($196 million). See "COMMONWEALTH REVENUES—State Taxes."
9. The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 1998 on October 31, 1998. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

Selected Financial Data—GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1993 through 1997 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis
(in millions)

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997
Beginning fund balances (deficits)	$(317.4)	$(184.1)	$(72.0)	$287.4	$709.2
Equity transfer	0.0	0.0	91.0	0.0	0.0
Restated beginning balances (deficits)	(317.4)	(184.1)	19.0	287.4	709.2
Revenues and Financing Sources					
Taxes	10,015.8	10,602.7	11,253.4	11,916.9	13,020.8
Federal Grants and Reimbursements	2,627.0	2,918.1	2,850.0	2,945.2	3,073.4
Department and Other Revenues	1,522.4	1,303.8	1,336.3	1,306.1	1,346.4
Interfund Transfers and Other Sources	1,015.7	980.3	1,077.8	1,356.4	1,405.3
Total	15,181.0	15,804.9	16,517.5	17,524.6	18,845.9
Expenditures and Financing Uses					
Programs and Services	11,636.5	12,238.8	13,017.8	13,729.6	14,581.4
Debt Service	1,139.5	1,149.2	1,163.4	1,392.9	1,275.5
Pensions	893.5	830.2	642.2	382.5	413.1
Interfund Transfers and Other Uses	1,378.2	1,474.6	1,425.7	1,597.8	2,188.8
Total	15,047.7	15,692.8	16,249.1	17,102.8	18,458.8
Excess	133.3	112.1	268.4	421.8	387.1
Ending fund balances (deficits)	$(184.1)	$(72.0)	$287.4	$709.2	$1,096.3

SOURCE: Office of the Comptroller.

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data—Statutory Basis." As evidenced in the trend line of fund balance (deficit) over time, however, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both bottom lines trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*."

1998 FISCAL YEAR

The budget for fiscal 1998 was enacted by the Legislature on June 30, 1997 and approved by Governor Weld on July 10, 1997. (Appropriations covering the first two weeks of the fiscal year were enacted and approved on June 30, 1997.) The budget was based on a consensus tax revenue forecast of $12.85 billion, as agreed by both houses of the Legislature in March. The Executive Office for Administration and Finance revised the fiscal 1998 tax forecast to $13.06 billion on July 30, 1997 and, after a review of first quarter fiscal 1998 tax receipts, to $13.20 billion on October 15, 1997. (The fiscal 1998 budget amended the state finance law to change the required date for tax revenue estimates from September 25 to October 15.) The fiscal 1998 tax revenue estimates were revised again on January 16, 1998 to reflect an increase of $100 million in tax revenues.

Year-to-date tax collections through January, 1998 total approximately $7.577 billion, approximately $395 million, or 5.5%, higher than collections in the corresponding period in fiscal 1997 and approximately $102 million higher than the high end of the benchmark range ($7.315 billion to $7.475 billion) contemplated by the Department of Revenue's January 16, 1998 estimates.

The fiscal 1998 budget provides for total appropriations of approximately $18.4 billion, a 2.8% increase over fiscal 1997 expenditures. Governor Weld vetoed or reduced appropriations totaling $3.3 million. The budget incorporates tax cuts valued by the Department of Revenue at $61 million and provides for an accelerated pension funding schedule. See "COMMONWEALTH REVENUES—State Taxes" and "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits." Supplemental appropriations have been approved for fiscal 1998 in the amount of approximately $17.7 million. In addition, on November 26, 1997, Acting Governor Cellucci approved legislation transferring off-budget the $206.3 million Department of Medical Assistance reserve to indemnify certain medical facilities against losses that might result from providing uncompensated care. Additional requests by Acting Governor Cellucci for approximately $215.5 million in fiscal 1998 supplemental appropriations are being considered by the House Ways and Means Committee. Projected total fiscal 1998 expenditures are approximately $18.848 billion, including approximately $136 million reserved for contingencies and identified deficiencies.

On January 30, 1998, Acting Governor Cellucci filed two bills recommending supplemental appropriations for fiscal 1998 totaling $211.8 million. The bills incorporate most of the supplemental appropriations recommended in bills filed by the Administration on October 6, 1997 and October 17, 1997 which were not enacted by the Legislature. The first bill totals $44.6 million in proposed spending to provide for certain unanticipated obligations of the Commonwealth. The second bill recommends $167.1 million in proposed spending to provide for one-time expenditures, matching grants and capital initiatives, including $50 million for the construction and repair of local roads and bridges, $20 million for the development of a new human resource compensation management system and $10 million in additional funding for the upgrade of the Commonwealth's information technology systems in preparation for the year 2000 conversion.

Cash Flow

The Commonwealth ended fiscal 1997 with a cash balance of approximately $902.0 million, not including the Stabilization Fund ending balance of $799.3 million. The most recent cash flow projections for fiscal 1998 were released by the State Treasurer and the Secretary of Administration and Finance on December 11, 1997. The forecast was based on the fiscal 1998 budget signed by Governor Weld on July 10, 1997, and includes the value of all fiscal 1998 supplemental budgets enacted by the Legislature. Projections are based on revenue and spending estimates prepared by the Executive Office for Administration and Finance and incorporate actual results through October, 1997 and monthly projections through June, 1998.

Fiscal 1998 is projected to end with a cash balance of $335.1 million, without regard to any fiscal 1998 activity that may occur after June 30, 1998. Such balance does not include the balance in the Stabilization Fund ($799.3 million at June 30, 1997) or interest earnings thereon expected during fiscal 1998; it does reflect the required Stabilization Fund transfer related to fiscal 1997 of $234.0 million during fiscal 1998. The cash flow statement notes that general obligation bonds were issued for capital projects in August, 1997 in the amount of $250 million and projects that an additional $600 million of general obligation bonds will be issued for such purposes during the remainder of the fiscal year. The statement also notes that $105 million of special obligation bonds were issued in October, 1997. Neither the issuance of transit notes nor commercial paper for operating purposes is forecast.

The cash flow statement notes that the Massachusetts Turnpike Authority and the Massachusetts Port Authority are required to make payments to the Commonwealth in connection with the Central Artery/Ted Williams Tunnel project and forecasts that the Commonwealth will receive $400 million in the aggregate during fiscal 1998 from such authorities or from the issuance of Commonwealth notes in anticipation of payments from such authorities. (The statement also notes that the Commonwealth has the statutory authority to issue bonds to pay any such notes.) The statement further forecasts, in connection with the Central Artery/Ted Williams Tunnel project, that the Commonwealth will issue $350 million of notes in anticipation of future federal highway grants, noting that federal funding for such purposes has been extended on an interim basis through March 31, 1998, and that successor federal funding legislation is expected to be enacted during 1998. Certain of the foregoing assumptions relating to the Central Artery/Ted Williams Tunnel project have been modified since the date of the cash flow statement. See "COMMONWEALTH CAPITAL SPENDING."

The ending balances reported for fiscal 1997 and projected for fiscal 1998 are likely to differ from the ending balances for the Commonwealth's budgeted operating funds for those years because of timing differences and the effect of non-budget items.

The next cash flow statement for the Commonwealth is due to be released on February 25, 1998.

1999 FISCAL YEAR

On January 27, 1998, Acting Governor Cellucci filed his fiscal 1999 budget recommendations with the House of Representatives. The proposal calls for budgeted expenditures of approximately $19.06 billion, or total fiscal 1999 spending of $19.49 billion after adjusting for shifts to and from off-budget accounts. The proposed fiscal 1999 spending level represents a $641.7 million, or 3.4%, increase over projected total fiscal 1998 expenditures of $18.848 billion. Budgeted revenues for fiscal 1999 are projected to be $18.961 billion, or $19.291 billion after adjusting for shifts to and from off-budget accounts. This represents a $542.0 million, or 2.9%, increase over the $18.749 billion forecast for fiscal 1998. (The $18.749 billion revenue estimate for fiscal 1998 reflects the addition of $100 million in tax revenue incorporated into the forecast by the Secretary of Administration and Finance on January 16, 1998.) The Governor's proposal projects a fiscal 1999 ending balance in the budgeted funds of $906.3 million, including a Stabilization Fund balance of $878.1 million.

The Governor's budget recommendation is based on a tax revenue estimate of $13.665 billion, a $510.7 million, or 3.9%, increase over fiscal 1998 projected tax revenues of $13.154 billion. The projection incorporates $244.8 million in income tax cuts proposed by the Governor, including a reduction of the Part B ("earned income") tax rate from 5.95% to 5% over three years ($205.8 million), a reduction of the Part A ("unearned income"; *i.e.*, interest from non-Massachusetts banks, dividends, and short-term capital gains) tax rate from 12% to 5% over five years ($30 million), credits and exemptions to encourage saving for children's higher education ($3 million), an exemption from capital gains taxes on the sale of a house ($2 million) and an exemption for providing care to an elderly relative ($4 million). The recommendation also proposes moving $92.5 million in tax revenue in the Children's and Seniors Health Protection Fund off-budget.

The proposed budget assumes non-tax revenues of $5.297 billion, or $5.624 billion when adjusted for the shifts to and from off-budget accounts, and represents a decrease of $60.4 million from fiscal 1998. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth's budgetary considerations. These payments are projected to total $3.216 billion in fiscal 1999, or $3.426 billion after the impact of shifts to and from off-budget accounts is removed. This level of federal payments represents an increase of $50.7 million, or 1.5%, from fiscal 1998, the result primarily of changes in federal reimbursement for Medicaid programs. Fiscal 1999 departmental revenues of $1.130 billion, or $1.158 billion after adjusting for shifts to and from off-budget accounts, represent a decrease of approximately $115 million from fiscal 1998 projections, due primarily to the implementation of free, lifetime driver licensing and vehicle registration and a decrease of $29.9 million from fiscal 1998 in the revenue generated by the revenue optimization program. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery profits which are distributed to cities and towns. Consolidated transfers are projected to increase by $4.3 million from fiscal 1998 levels. Lottery profits are expected to remain constant in fiscal 1999.

The Governor's budget proposal generally provides for maintaining current levels of service for most state programs but recommends increased spending for certain priority areas, including a $357 million increase in funding

for the Department of Education, $309.7 million in additional local aid to cities and towns, $69 million for Medicaid program medical inflation and $34 million in additional local aid funded by the State Lottery.

The Governor's fiscal 1999 budget recommendations call for appropriations of $945.3 million for pension funding, $93.9 million less than the amount appropriated for fiscal 1998 and $113.9 million less than the amount called for in the most recently adopted funding schedule. The recommended amount reflects the elimination in 1997 of the Commonwealth's responsibility for funding cost-of-living adjustments incurred by local pension systems and assumes the adoption of a revised funding schedule in the spring of 1998. The proposed budget also includes a $20 million reserve to meet the Commonwealth's obligation to reduce the unfunded pension liabilities attributable to former employees of Franklin, Hampden, Middlesex and Worcester counties and certain incremental benefit costs associated with legislation enacted in 1996; any expenditures from the reserve are contingent upon the adoption of a new funding schedule. See "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits; *Pension Funding Plan.*"

Under the Governor's proposed fiscal 1999 budget, the Commonwealth is expected to spend approximately $936.6 million on public assistance programs. Under the federal welfare reform law, Massachusetts will receive $459.4 million from the Temporary Assistance for Needy Families (TANF) federal block grant. Of this total, the Commonwealth is expected to spend $321.6 million on Transitional Aid for Families with Dependent Children (TAFDC)-related programs and to transfer $91.9 million to the Child Care Fund and $45.9 million to the Social Services Program Fund. In addition, the Commonwealth expects to receive $77.3 million from the Child Care Development Fund block grant and $51.8 million from the Social Services block grant.

Acting Governor Cellucci's fiscal 1999 budget also recommends spending of $3.688 billion by the Department of Medical Assistance, the Commonwealth's Medicaid agency. This level of spending represents a decrease of $133.4 million, or 3.5%, from fiscal 1998, due in part to the Governor's proposal to move the Children's and Seniors' Health Care Assistance Fund off-budget to a trust fund. Spending in support of the expansion in the population eligible for health care assistance therefore is not reflected in the fiscal 1999 budget recommendation. The proposed fiscal 1999 expansion in Medicaid coverage conforms to the terms of the Commonwealth's federal waiver and was authorized by legislation passed in July, 1996 and July, 1997.

The Governor's fiscal 1999 budget recommendations are now being evaluated by the House Committee on Ways and Means, the first legislative step in the process of approving a budget for fiscal 1999.

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1997, approximately 70.8% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 16.6% of such revenues, with the remaining 12.6% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1993 through 1997 and estimated revenues for fiscal 1998.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1993(1)	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Tax Revenues:						
Alcoholic Beverages	$60.6	$60.2	$60.7	$59.7	$60.3	$57.0
Banks						
Commercial	74.7	136.9	164.5	150.6	99.0	147.0
Savings	78.2	63.0	41.4	68.0	41.3	25.0
Cigarettes (2)	190.2	237.3	234.2	232.8	281.7	285.0
Corporations	737.4	782.3	911.0	876.3	963.9	992.0
Deeds	34.0	40.2	40.3	41.0	51.6	49.0
Income	5,374.9	5,689.8	5,974.2	6,706.9	7,181.8	7,512.0
Inheritance and Estate	267.3	277.5	209.3	188.0	202.7	108.0
Insurance (3)	280.5	290.2	292.6	294.1	297.8	308.5
Motor Fuel	557.2	562.6	577.5	598.8	602.8	608.0
Public Utilities	69.1	81.8	88.7	132.9	109.2	93.0
Racing	15.7	13.4	12.7	11.4	10.2	10.2
Room Occupancy	59.3	62.8	68.8	72.9	80.5	86.0
Sales - Regular	1,548.1	1,664.3	1,796.6	1,886.7	2,087.7	2,090.0
Sales - Meals	303.2	323.4	344.3	358.0	381.4	365.0
Sales - Motor Vehicles	272.9	314.5	340.4	365.4	407.0	413.0
Sub-Total—Sales	2,124.2	2,302.2	2,481.3	2,610.1	2,876.1	2,868.0
Miscellaneous	6.6	6.5	6.2	5.7	5.6	5.3
Total	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	13,154.0
Non-Tax Revenues:						
Federal Reimbursements (4)	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,374.8
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,273.4
Interfund Transfers from Non-budgeted Funds and Other Sources (5)	778.5	853.9	981.0	1,031.1	1,018.0	946.3
Budgeted Non-Tax Revenues and Other Sources	4,779.7	4,943.0	5,223.8	5,278.3	5,305.5	5,594.5
Budgeted Revenues and Other Sources	14,709.6	15,549.7	16,387.2	17,327.5	18,170.0	18,748.5
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources (5)	358.7	289.1	399.7	896.2	901.8	372.8
Total Revenues and Other Sources	$15,205.7	$15,979.2	$16,930.8	$18,371.3	$19,223.3	$19,273.4

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1993 impact of the changes was an estimated increase in tax revenues of $1.318 billion.

(2) As a result of legislation enacted by the voters, this excise tax was increased effective January 1, 1993. See "State Taxes; *Other Taxes*."

(3) Includes $8.0 million in 1993, $8.7 million in 1994, $8.4 million in 1995, $9.2 million in fiscal 1996, $8.5 million in fiscal 1997, and an estimated $8.5 million in fiscal 1998 in fees collected by the Division of Insurance relating to high-risk insurance.

(4) Includes $236.3 million for fiscal 1993, $247.8 million in fiscal 1994, $231.9 million in fiscal 1995, $212.5 million in fiscal 1996, $221.0 million in fiscal 1997 and an estimated $288.5 million in fiscal 1998 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "1998 FISCAL YEAR."

(5) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $76.9 million, $65.4 million, $27.9 million, $177.4 million and $234.3 million in fiscal 1993, 1994, 1995, 1996 and 1997 respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 55.8% of total tax revenues in fiscal 1997, the sales and use tax, which accounted for approximately 22.4%, and the business corporations tax, which accounted for approximately 7.5%. Other tax and excise sources accounted for the remaining 14.3% of total fiscal 1997 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt) and dividends; and, as of January 1, 1996, a rate ranging from 12% on capital gains from the sale of assets held for one year and less to 0% on capital gains from the sale of certain assets held more than six years.

In December, 1994, the Governor approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996. Accordingly, it is estimated by the Executive Office for Administration and Finance to have had only a minor effect on fiscal 1996 tax revenues and to have decreased fiscal 1997 revenues by approximately $20.5 million. It is expected to decrease fiscal 1998 tax revenues by approximately $41.0 million. The no-tax status change is estimated to have reduced fiscal 1995 tax revenues by approximately $5.5 million, 1996 tax revenues by $13.3 million and fiscal 1997 revenues by approximately $13.3 million. It is expected to decrease fiscal 1998 tax revenues by $13.0 million.

As part of the fiscal 1997 budget the Legislature established a tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction resulted in no revenue reduction in fiscal 1997 and will result in an approximately $14 million reduction on an annualized basis thereafter.

The fiscal 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to be $60.9 million — an increase in the child dependent deduction from $600 to $1,200 for children up to age 12 ($15.3 million), a tax credit of up to $6,000 over four years for septic tank improvements ($17 million) and an earned income tax credit amounting to 10% of the federal credit ($28.6 million).

On November 6, 1997, Acting Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption will result in a fiscal 1998 revenue reduction of $25.0 million and an approximately $18 million reduction on an annualized basis thereafter.

As part of Acting Governor Celluci's fiscal 1999 budget recommendations, he proposed a reduction in the tax rate on "Part B" personal income (so-called "earned" income) from the current level of 5.95% to 5% over three calendar years. The rate would be reduced to 5.6% effective January 1, 1999, 5.3% effective January 1, 2000 and 5% effective January 1, 2001. The Executive Office for Administration and Finance estimates that the static revenue impact of these changes would be a reduction in personal income tax collections of approximately $206 million in fiscal 1999, $616 million in fiscal 2000, $1.035 billion in fiscal 2001 and $1.292 billion in fiscal 2002, at which time the rate reduction would be fully implemented. The Acting Governor also proposed a reduction in the tax rate on "Part A" personal income (so-called "unearned" income) from 12% to 5% over five years. The Executive Office for Administration and Finance estimates that the static revenue impact of these changes would be a reduction in personal income tax collections of approximately $30 million in fiscal 1999, $101 million in fiscal 2000, $173 million in fiscal 2001, $249 million in fiscal 2002, $327 million in fiscal 2003 and $372 million in fiscal 2004, at which time the rate reduction would be fully implemented. See "1999 FISCAL YEAR."

Two initiative petitions that would reduce income tax rates were certified by the Attorney General on September 3, 1997 and filed with the State Secretary in November, 1997, to be placed before the 1998 session of the Legislature. One petition would set the rate for Part B personal income at 5.6% for tax year 1999, 5.3% for tax year 2000 and 5% for tax year 2001 and thereafter, unless the Legislature set a lower rate for any of those years. The other petition would change the income tax rate on interest and dividend income (currently 12%) to whatever rate applies to Part B income, starting in tax year 2000. On December 31, 1997, a petition was filed with the Ballot Law Commission challenging the validity of the signatures on the initiative petitions. The Commission ruled on January 23, 1998 that the

petitions were not valid. On January 29, 1998, the sponsors of the petitions filed suit to challenge the Ballot Law Commission's ruling. Under the state constitution, if the Legislature does not enact a particular initiative petition by May 6, 1998, the sponsors may have the petition placed on the 1998 general election ballot by collecting an additional 10,821 signatures. See "THE GOVERNMENT—Initiative Petitions."

Sales and Use Tax. The Commonwealth imposes a 5% sales tax on retail sales of certain tangible properties (including retail sales of meals) transacted in the Commonwealth and a corresponding 5% use tax on the storage, use or other consumption of like tangible properties brought into the Commonwealth. However, food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries, and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and most residential use of telecommunications services.

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue will issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over $25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers will be required to file a tax return and make a tax payment on the 20th of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27th of each month for taxable sales made from the 23rd of the preceding month to the 22nd of the current month, as well as file a quarterly tax return. While these new regulations will not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth will realize a reduction in fiscal 1998 revenues of $120 million to $160 million, which has been incorporated into the January 16, 1998 revenue estimates. This reduction will be a one-time event.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax. The reduction in fiscal 1996 tax revenues from business corporations compared to fiscal 1995 was due primarily to an estimated $49 million reduction resulting from the application of the "single sales factor" apportionment formula, described below. The fiscal 1997 tax revenue collections reflected an additional $44 million reduction for the full-year impact of the "single sales" apportionment formula and a $10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995 the Governor approved legislation establishing a "single sales factor" apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The new formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue estimated that the revision reduced revenues by $44 million in fiscal 1996 and by $90 million in fiscal 1997. If the new formula were fully effective for all covered businesses, the Department estimates that the annual revenue reduction would be $100 million to $150 million.

On August 8, 1996, the Governor approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November, 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the new law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue estimates that the changes resulted in a revenue reduction of approximately $10 million in fiscal 1997 and will result in revenue reductions of $39 million to $53 million on an annualized basis thereafter, starting in fiscal 1998. These estimates do not take into account any increased economic activity that may be stimulated by the tax cuts.

On August 9, 1996, the Governor signed legislation providing a tax credit to shippers that pay federal harbor maintenance taxes on cargo passing through Massachusetts ports. The Department of Revenue estimates that there was no impact on revenues in fiscal 1997 as a result of this tax credit and that the annualized revenue loss will be approximately $3 million to $4 million, beginning in fiscal 1998.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, the Governor approved legislation that will reduce the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue estimates that the tax cut, when fully implemented in fiscal 1999, will result in an annual $32.3 million revenue loss, including the effect of provisions in the proposed legislation that would apply the tax to out-of-state banks and other financial institutions that are not currently taxed and that would lead to an estimated $18 million annual gain.

Other Taxes. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources.

On July 24, 1996, the Legislature overrode the Governor's veto of legislation imposing a 25¢-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes resulted in approximately $74 million in additional tax revenue for fiscal 1997 and will result in $80 million to $90 million in additional revenue in fiscal 1998. The Department estimates that by fiscal 2000, when demand for cigarettes will have fully adjusted to the higher tobacco product prices expected to result from the increased tax, additional revenues will range from $73 million to $83 million.

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25¢ per cigarette (25¢ per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were $59.5 million and $116.4 million and have been $114 million on an annualized basis since fiscal 1995.

The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately $177 million in fiscal 1998. Additional special obligation bonds may be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Special Obligation Debt; *Highway Fund.*"

On November 17, 1997, the Legislature overrode Acting Governor Cellucci's veto to enact legislation authorizing the Commonwealth to issue special obligation convention center bonds secured by a pledge of certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed by the legislation on hotel room occupancy in four Massachusetts cities. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Special Obligation Debt; *Boston Convention and Exhibition Center Fund.*"

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phased down the current Massachusetts estate tax until it became a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax was phased out by means of annual increases in the basic exemption from the original $200,000 level. The exemption was increased to $300,000 for 1993, $400,000 for 1994, $500,000 for 1995 and $600,000 for 1996. In addition, the legislation included a full marital deduction starting July 1, 1994. The marital deduction was limited to 50% of the Massachusetts adjusted gross estate until June 30, 1995. The static fiscal impact of the phase-out of the estate tax is estimated to have been approximately $25 million in fiscal 1994, approximately $73 million in fiscal 1995, approximately $112 million in fiscal 1996 and approximately $139 million in fiscal 1997 and is projected to be approximately $253 million in fiscal 1998.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before

October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts.

The fiscal 1993 budget as enacted was based on a joint tax revenue estimate of $9.685 billion, an increase of $201.1 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were $9.930 billion, a 4.7% increase over fiscal 1992.

The fiscal 1994 budget as enacted was based on a joint tax revenue estimate of $10.540 billion, an increase of $610 million, or 6.1%, from then-expected tax revenues for fiscal 1993. Actual fiscal 1994 tax revenues were $10.607 billion, a 6.8% increase over fiscal 1993.

The fiscal 1995 budget as enacted was based on a joint tax revenue estimate of $11.328 billion (an increase of $634 million, or 5.9%, from then-expected tax revenues for fiscal 1994), less $19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to $11.151 billion due to lower than expected tax revenue collections and a $5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were $11.163 billion, a 5.3% increase over fiscal 1994.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of $11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus $16 million for revenue initiatives and less $300,000 for a sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately $11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of $1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately $11.604 billion which reflected a further reduction totaling $44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to $11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues for fiscal 1996 totaled approximately $12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

The fiscal 1997 budget as enacted was based on a joint tax revenue estimate of $12.177 billion. In October, 1996, the Secretary of Administration and Finance released a fiscal 1997 tax revenue estimate of approximately $12.123 billion, which reflected various tax law changes enacted after the date of the joint estimate. On January 22, 1997, the Secretary of Administration and Finance released a revised fiscal 1997 tax revenue estimate of approximately $12.307 billion, based on stronger than anticipated collections through December, 1996 and the assumption that $84 million in tax cuts initially proposed by the Governor for fiscal 1997 would occur in fiscal 1998. On May 20, 1997 the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate to $12.507 billion. Actual tax revenues for fiscal 1997 totaled approximately $12.865 billion, a 6.8% increase over fiscal 1996. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by stronger than expected economic growth and the increase in capital gains resulting from the strong stock market in calendar year 1996.

The fiscal 1998 budget as enacted was based on a joint tax revenue estimate of $12.85 billion. The Secretary of Administration and Finance revised the fiscal 1998 tax revenue forecast to $13.06 billion on July 30, 1997, to $13.2 billion on October 15, 1997 and to $13.154 billion on January 16, 1998. The January 16, 1998 estimate includes an aggregate $6 million downward adjustment reflecting tax law changes enacted after October 15, 1997 and a $140 million downward adjustment reflecting the one-time change in the sales tax payment schedule that was announced by Acting Governor Cellucci on October 20, 1997.

Federal and Other Non-Tax Revenues

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal year 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF), formerly Aid to Families with Dependent Children (AFDC). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government.

Departmental and other non-tax revenues are derived from licenses, registrations and fees and reimbursements and assessments for services. In fiscal 1996, a revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance yielded almost $39.9 million in additional federal reimbursement revenues, net of agency and vendor incentive payments, at the Department of Mental Health, Department of Mental Retardation, Department of Social Services and Division of Medical Assistance. In fiscal 1997, $41.3 million in additional non-tax revenues resulted in net revenues of $39.1 million deposited into the General Fund. In fiscal 1998, an estimated $54.3 million in additional non-tax revenues is expected to result in $43.9 million of net revenue for the General Fund.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee of $30 and a reduction in the passenger vehicle operating license renewal fee from the rate of $30 to $2, effective May 1, 2001. The Executive Office for Administration and Finance estimates that these changes had no effect on fiscal 1997 revenues and will reduce fiscal 1998 revenues by $13.8 million. When all drivers become eligible for free registration renewals in fiscal 1999, revenues are projected to decline by approximately $55 million. Revenue reductions due to lifetime licenses will not begin until fiscal 2001, when they will total approximately $5 million. In fiscal 2002, when all drivers become eligible for free license renewals, the revenue reduction is estimated to be approximately $31 million. (The Commonwealth is still maintaining the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before license and registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to lifetime licenses and registrations.) In May, 1997, the Legislature enacted legislation that would restore registration, license and permit fees credited to the Highway Fund to the rates in effect on January 1, 1996 if federal aid to the Central Artery/Ted Williams Tunnel project falls below $550 million in any fiscal year during the next six years. Governor Weld vetoed this provision. Under the state constitution, his veto can be overridden by a two-thirds vote of each house of the Legislature; neither house has acted on the veto.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $600.2 million, $667.3 million, $709.5 million, $727.5 million and $770.2 million in fiscal 1993 through 1997, respectively and which are expected to account for $778.4 million in fiscal 1998.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the Massachusetts Bay Transportation Authority. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. The Legislature has twice postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." The most recent postponement changed the effective date of the provision to July 1, 1998. See "THE GOVERNMENT—Initiative Petitions."

On August 9, 1996, the Governor approved legislation authorizing the State Lottery Commission to participate with other states in a multi-jurisdictional lottery. Beginning September, 1996, the Commission joined with

the states of Illinois, Georgia, Maryland, Michigan and Virginia in a multi-state game that is estimated to generate an additional $30 million per year in net lottery revenues.

Limitations on Tax Revenues

In Massachusetts efforts to limit and reduce levels of taxation have been under way for several years. Limits were established on state tax revenues by legislation enacted on October 25, 1986 and by an initiative petition approved by the voters on November 4, 1986. The two measures are inconsistent in several respects.

Chapter 62F, which was added to the General Laws by initiative petition in November, 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. Unlike Chapter 29B, as described below, the initiative petition did not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that "although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems, and payment of principal and interest on debt and other obligations of the Commonwealth."

The legislation enacted in October, 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs. As part of his fiscal 1999 budget recommendations, Acting Governor Celluci has proposed the repeal of the tax revenue limits in Chapter 29B.

Tax revenues in fiscal 1993 through fiscal 1997 were lower than the limit set by either Chapter 62F or Chapter 29B, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1998 will not reach the limit imposed by either of these statutes.

COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds
(in millions)

Expenditure Category	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Direct Local Aid (1)	$2,546.5	$2,727.3	$2,976.2	$3,246.2	$3,558.1	$3,885.2
Medicaid	3,151.4	3,313.1(4)	3,398.2	3,415.9(6)	3,455.5	3,616.1(8)
Group Health Insurance	491.2	496.2	509.7	519.3	522.0	548.1
Public Assistance	1,074.9	1,100.3	1,095.0(5)	1,088.8(7)	1,089.7(7)	1,045.7(7)
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,224.2(9)
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,064.7
Higher Education	544.9(3)	672.5	703.3	743.9	806.5	884.4
MBTA and RTA's	499.0	522.3	516.2	518.5	520.2	534.0
Other Program Expenditures	4,375.7	4,584.5	4,811.7	5,118.1	5,266.8	5,967.8
Interfund Transfers to Non-budgeted Funds (2)	5.1	48.4	40.4	42.2	385.5	78.1
Budgeted Expenditures and Other Uses	14,696.4	15,522.9	16,250.5	16,881.1	17,949.0	18,848.3
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses (2)	358.7	289.1	399.7	896.2	901.8	372.8
Total Expenditures and Other Uses	$15,192.6	$15,952.4	$16,794.1	$17,924.9	$19,002.3	$19,373.2

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet," excluding certain pension funds, and including $80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.

(2) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $76.9 million, $65.4 million, $27.9 million, $177.4 million and $234.3 million in fiscal 1993, 1994, 1995, 1996 and 1997, respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

(3) Reflects the transfer of $89.4 million in related tuition revenue and spending to an off-budget trust fund.

(4) Includes approximately $22.3 million of expenditures previously off-budget and classified as administrative expenses.

(5) Includes approximately $33.3 million not previously classified as public assistance and $22.3 million not previously classified as budgeted expenditures.

(6) Excludes approximately $61.4 million previously reclassified as administrative and not program expenses.

(7) Includes $125 million in fiscal 1996, $128.5 million in fiscal 1997 and $244.5 million in fiscal 1998 for daycare services not previously classified as public assistance expenditures.

(8) Includes $38.5 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, which amount was transferred to Medicaid in fiscal 1998.

(9) Does not include $38.5 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, which amount was transferred to Medicaid in fiscal 1998.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1997, the aggregate property tax levy grew from $3.346 billion to $6.160 billion, representing an increase of approximately 84.1%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 97.7%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1997, 17 communities had successful override referenda which added an aggregate of $5.4 million to their levy limits. In fiscal 1997, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 114 communities by $48.8 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 20 communities in fiscal 1997 and totaled $3.2 million. In fiscal 1997, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 236 communities by $612.9 million.

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 1998, approximately 20.6% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately $1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately $175 million in fiscal 1994, $396 million in fiscal 1995, $629 million in fiscal 1996 and $881 million in fiscal 1997, with additional annual increases anticipated in later years. The fiscal 1994, 1995, 1996, 1997 and 1998 budgets have fully funded the requirements imposed by this legislation.

Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as highway construction, school building construction, and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service,

pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Initiative Law. A statute adopted by voter initiative petition at the November, 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town is to equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels are to be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

Medicaid

The Medicaid program provides health care to low-income children and families, the disabled and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements.

During fiscal years 1993, 1994, 1995, 1996 and 1997 Medicaid expenditures were $3.151 billion, $3.313 billion, $3.398 billion, $3.416 billion, and $3.456 billion respectively. The average annual growth rate from fiscal 1993 to fiscal 1997 was 1.9%. The Executive Office for Administration and Finance estimates that fiscal 1998 Medicaid expenditures will be approximately $3.616 billion, an increase of 4.6% from fiscal 1997.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review and the identification of third party liabilities. In spite of increasing caseloads, Massachusetts has managed a substantial reduction in the Medicaid growth rate in expenditures over the last six years. From fiscal 1993 through fiscal 1997, per capita costs grew on average less than 0.5% annually. The total Medicaid caseload for fiscal 1997 was approximately 676,323 (approximately 11.1% of the most recently estimated population of the Commonwealth), as compared to approximately 630,902 in fiscal 1993.

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign certain recipients to primary care clinicians who function as gatekeepers to specialty and inpatient care and to enroll recipients in a capitated managed system of care for mental health or substance abuse services. In addition, nursing home prescreening and community service planning for long-term care is concentrated in 27 home care corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives, which are in addition to major rate control initiatives, include the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Medicaid costs for nursing home care increased from $1.127 billion in fiscal 1993 to approximately $1.213 billion in fiscal 1997, which currently accounts for more than 35% of the Medicaid budget (excluding payments of bills for prior years). Over 43,211 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 1997. The annual cost per beneficiary in a nursing home is approximately $27,788. On an overall basis, 70% of all nursing home costs in the Commonwealth are paid by Medicaid. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 1.5% between fiscal 1993 and fiscal 1997 on a date-of-service basis. The Division of Medical Assistance is planning a managed care program for long-term care Medicaid recipients in anticipation of continued growth in the elderly Medicaid caseload.

Fiscal 1998 is projected by the Executive Office for Administration and Finance to be the fifth year with no need for supplemental Medicaid appropriations for current year program expenses. Decreased reliance on supplemental appropriations reflects an effective management of Medicaid expenditures by the Commonwealth. Prior to fiscal 1994, substantial Medicaid expenditures were provided through supplemental appropriations because program requirements consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. The Executive Office for Administration and Finance estimates that all current year

Medicaid costs as well as all remaining prior year bills will be covered within the current appropriation for fiscal 1998. Current spending estimates project a $4.4 million Medicaid surplus, as well.

The Legislature passed health care reform bills in July, 1996 and July, 1997 which authorized the Division of Medical Assistance to expand eligibility for health care coverage by increasing the Medicaid benefits income cutoff to 133% of the federal poverty level for teenagers and adults, and by increasing the Medicaid benefits income cutoff to 200% of the federal poverty level for children up to the age of 18 and pregnant women. These changes resulted in an additional 221,000 people becoming eligible for Medicaid benefits. In addition, pharmacy assistance eligibility was expanded by increasing the Medicaid benefits income cutoff to 150% of the federal poverty level to cover an estimated 25,000 senior citizens. These program expansions take advantage of a federally approved waiver and resulting federal financial participation, additional tobacco tax revenue and new federal funding available under recently passed changes to the federal Social Security Act. The legislation also requires that any program expansion be neutral in its impact on the state budget.

Public Assistance

The Commonwealth administers four major programs of income assistance for its poorest residents: Transitional Assistance for Families with Dependent Children (TAFDC), Emergency Assistance (EA), Emergency Aid to the Elderly, Disabled and Children (EAEDC) and the state supplement to federal Supplemental Security Income (SSI). The following table illustrates the recent expenditures within these categories.

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1993	Fiscal 1994	Fiscal 1995(4)	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
TAFDC (1)	$809.9	$817.2	$782.7	$786.0(6)	$792.9(6)	$785.7(6)
EAEDC (formerly General Relief) (2)	89.9	100.3	119.7(5)	105.9	103.7	70.1
SSI (3)	175.1	182.8	192.6	196.9	193.1	182.9
Total	$1,074.9	$1,100.3	$1,095.0	$1,088.8	$1,089.7	$1,045.7

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Includes expenditures for Emergency Assistance, a component of TAFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless. Prior to November, 1995, TAFDC was known as the Aid to Families with Dependent Children (AFDC) program.
(2) Includes outpatient medical services to EAEDC recipients. Does not include $38.5 million for outpatient medical services to EAEDC recipients in fiscal 1998.
(3) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.
(4) Includes approximately $33.3 million not previously classified as public assistance.
(5) Includes $22.3 million not previously classified as budgeted expenditures.
(6) Includes approximately $125 million in fiscal 1996, $128.5 million in fiscal 1997 and $244.5 million in fiscal 1998 for day care services not previously classified as public assistance.

TAFDC expenditures for fiscal 1998 are projected to be $785.7 million, approximately $7.8 million lower than in fiscal 1997. The fiscal 1997 expenditures include $128.5 million in child care benefits for TAFDC and low income working families. The fiscal 1998 expenditure includes $226.9 million in child care benefits for TAFDC and low income working families. See "*Federal Welfare Reform*" below.

The AFDC/TAFDC caseload has been declining steadily since fiscal 1993, resulting in a 25.6% decrease through fiscal 1997. Massachusetts began implementing welfare reform programs in November, 1995, establishing TAFDC programs to encourage work as a means to self-sufficiencyand to discourage reliance on long term assistance. With the improved Massachusetts economy, new work incentives, aggressive child support collections and anti-fraud initiatives, the caseload is expected to continue declining through fiscal 1998. The following table illustrates the decline in caseload for public assistance programs.

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
TAFDC (1)	112,691	111,733	102,782	88,988	79,131	65,900
EAEDC (formerly General Relief)	21,079	21,859	20,395	17,282	16,895	16,848
SSI	134,529	144,776	153,248	159,748	160,924	158,591
Total	268,299	278,368	276,425	266,018	256,950	241,339

SOURCE: Department of Transitional Assistance

(1) TAFDC caseload estimates do not include the Emergency Assistance caseload.

The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

After rising from fiscal 1993 to fiscal 1994, the EAEDC caseload has been declining steadily since fiscal 1994 resulting in a 22.7% decrease through fiscal 1997. The decline can be attributed to factors similar to those affecting the AFDC/TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 1998 expenditures for EAEDC are projected to be $70 million, $33.7 million below fiscal 1997.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $470 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $112 to $150 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals. Expenditures for SSI have risen at an average annual rate of 2.52% from fiscal 1993 to fiscal 1997. The fiscal 1998 expenditures for SSI are projected to be $182.9 million, a 5.0% decrease over fiscal 1997.

Federal Welfare Reform

The federal welfare reform legislation that was enacted on August 22, 1996 eliminates the federal entitlement program of AFDC and replaces it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaces Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for Massachusetts will be $459,370,000 annually for federal fiscal years 1998 through 2002. In addition, Massachusetts will receive approximately $74.0 million in child care block grant funds to support child care programs.

Other Controls and Reforms

The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC/TAFDC, Emergency Assistance and EAEDC benefits, including implementation of new disability criteria for EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Transitional Assistance has improved its collection of child support payments.

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to determine eligibility, provide appropriate services and track recipients through a consolidated process. The system is anticipated to be fully operational by December, 1998.

The Electronic Benefit Transfer (EBT) system provides cash assistance and food stamp recipients with access to benefits via a single magnetic strip card that can be used at bank automated teller machines. The Commonwealth has

contracted with a commercial bank to provide EBT services. The statewide implementation was completed in October, 1998.

These projects provide the Commonwealth with the reporting capabilities that are necessary under the federal welfare reform law.

Massachusetts Bay Transportation Authority

The MBTA finances and operates mass transit facilities within its territory, which consists of 78 cities and towns in the greater Boston metropolitan area, and to a limited extent outside its territory. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Boston Metropolitan District no longer issues debt except for refunding purposes.

Commonwealth support of the MBTA includes (i) guaranties of its debt service, (ii) certain contract assistance and (iii) payment of its net cost of service. First, a Commonwealth guaranty of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on MBTA bonds. Third, under applicable statutory provisions the Commonwealth is required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issuance of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). From time to time, the Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2½, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth. Currently, the Commonwealth does not have any such transit notes outstanding.

MBTA operating expenses (total expenses less debt service) for fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $564.6 million, $588.7 million, $528.5 million, $506.5 million and $531.1 million, respectively and are estimated to be approximately $551.9 million for fiscal 1998. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $189.0 million, $196.9 million, $210.9 million, $246.0 million and $269.1 million, respectively, and for fiscal 1998 are estimated to be $302.6 million. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2½.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1992 through December 31, 1997 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1993	$610.3	$18.2	$165.6	$304.2	$122.3	$5.5	$127.8
1994	590.1	16.1	177.6	276.2	120.3	10.6	131.0
1995	585.7	13.4	208.7	240.8	122.8	11.5	134.3
1996	599.6	8.1	237.7	229.2(4)	124.6	13.0	137.6
1997	633.7	6.3	255.7	242.6(5)	129.1	12.0	141.1

SOURCE: Massachusetts Bay Transportation Authority.

(1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
(2) Additional contract assistance and other state assistance provided by the Commonwealth.
(3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of $25,000 in each year.
(4) The Commonwealth's fiscal 1998 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
(5) Assumes that fiscal 1999 appropriations will be adequate to limit assessments on cities and towns to 102.5% of the prior year's assessments.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. A large share of the projected fiscal 1998 spending in this category, $2.768 billion, consists of spending on human services programs other than Medicaid and public assistance, detailed earlier. This other human services spending for fiscal 1998 includes expenditures for the Department of Mental Retardation ($ 775.7 million), Department of Mental Health ($538.6 million), Department of Social Services ($462.5 million), Department of Public Health ($427.3 million) and other human services programs ($563.3 million). The remaining $3.209 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary, District Attorneys and the Attorney General ($560.7 million) and for the Executive Offices for Administration and Finance ($541.2 million), Environmental Affairs ($205.7 million), Transportation and Construction ($136.8 million), Public Safety ($808.9 million) and Elder Affairs ($135.5 million) and the Department of Housing and Community Development ($136.8 million).

State Workforce

As of December 27, 1997, the Commonwealth had approximately 65,976 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 347 seasonal FTEs or 113 members of boards or commissions. Approximately 54,381 of these FTEs work in executive branch agencies (including the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (such as the offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1997 approximately $2.6 billion was expended for salaries for state employees funded through the annual operating budget. Between January, 1991 and December, 1997, the size of the standard workforce funded through the annual operating budget was reduced by approximately 6,218 FTE positions, or 8.6 %. During this period, the net reduction in agencies under the control of the Governor, including colleges and the university, was approximately 8,463 or 13.5%. The Governor has implemented an aggressive program to reduce the executive branch workforce since taking office in January, 1991, through attrition, layoffs and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

	June 1988	January 1991	June 1994	December 1997
Executive Office	105	63	88	82
State Comptroller	119	101	103	110
Executive Departments:				
Administration and Finance (2)	4,434	3,985	3,412	3,113
Environmental Affairs (3)	3,319	3,019	2,229	2,417
Communities and Development	182	123	108	--
Health and Human Services	38,665	35,441	23,610	22,890
Transportation & Construction	3,146	2,565	1,389	1,238
Library Commissioners	19	14	14	18
Labor and Workforce Development	--	--	--	389
Housing and Community Development	--	--	--	115
Economic Development	--	--	--	93
Consumer Affairs	--	--	--	658
Educational Affairs	--	--	15	--
Department of Education	468	348	195	206
Higher Education	14,654	13,084	13,130	14,142
Public Safety	3,405	2,833	8,827	8,877
Economic Affairs	97	64	99	--
Elder Affairs	60	35	30	33
Consumer Affairs	755	725	614	--
Energy Resources	66	--	--	--
Labor	464	443	390	--
Subtotal Under Governor's Authority	69,958	62,844	54,255	54,381
Judiciary	6,157	5,856	5,861	6,900
Other (4)	4,224	3,494	3,693	4,695
Total	80,339	72,194	63,809	65,976

SOURCE: Executive Office for Administration and Finance.

(1) The budget-funded standard workforce excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time-equivalent filled positions (FTEs), not individual employees. Totals may not add due to rounding.
(2) Administration and Finance includes the Disabled Persons Protection Commission until 1997.
(3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.
(4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 27, 1997, the Commonwealth had approximately 13,344 FTEs whose positions are established in accounts funded from capital projects funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 500 FTEs in the off-seasons to over 2,000 FTEs in mid-summer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of most labor contracts is by means of a supplemental appropriation.

In most cases, the Trial Court, Lottery Commission and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by higher education management and the Lottery Commission are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 42,163 executive branch full-time-equivalent state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1997, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement provides for salary increases of 4% effective July 5, 1998, 2% effective July 4, 1999, 2% effective January 2, 2000 and 3% effective January 7, 2001. The agreement also calls for an increase in health and welfare contribution effective July 1, 1999. The total estimated cost of the agreement is $83.29 million through fiscal 2001.

In July, 1996, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 1995 and terminating December 31, 1997. The agreement provided for two wage increases, one for 3% (effective January 1, 1995), another for 3.5% (effective December 31, 1995), an increase in health and welfare contributions and other benefits, all of which were implemented retroactive to January 1, 1995, at a total cost of approximately $11.8 million through fiscal 1996. Effective in fiscal 1997, the agreement also provided for a 3% salary increase effective January 5, 1997, job title increases effective June 29, 1997 and other benefit increases. The total estimated cost of all of such benefit increases was $44.9 million through fiscal 1998. Negotiations have commenced for a successor agreement.

On July 1, 1992, the former Capitol, Metropolitan, Registry and State Police forces were consolidated into the Massachusetts Department of State Police. Negotiations between the Commonwealth and the State Police Association of Massachusetts, representing Unit 5A, culminated with the signing in July, 1993 of a three-year contract, which expired June 30, 1995. The contract granted a series of annual 6% salary increases, which cost approximately $14.9 million in fiscal 1995. Negotiations for a successor agreement are ongoing.

On March 1, 1994, the Commonwealth and the Massachusetts Nurses Association signed a successor agreement to an agreement that had expired October, 1990. The agreement, which expired December 31, 1994, called for a 4% pay raise effective July 1, 1992, a 2.5% increase effective July 1, 1993, a 1% increase effective July 1, 1994 and a 2.5% increase effective October 1, 1994. The contract was notable for being the first Commonwealth collective bargaining agreement to link an employee's salary increase to his or her performance. The agreement also provided for a reduction in overtime costs by paying employees at straight time for the first shift of overtime worked in any work week in which the employee used sick leave. The cost of this agreement in fiscal 1995 was approximately $10.5 million. Negotiations for a successor agreement continue.

In June, 1997, the Commonwealth reached agreement with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Units 2, 8 and 10 for a two-year contract commencing July 1, 1997 and ending June 30, 1999. The agreement provides for increases in overtime meals and mileage reimbursement. The agreement also calls for salary increases of 3% effective July 6, 1997 and 3% effective July 5, 1998. The total estimated cost of the agreement is $51.4 million through fiscal year 1999.

In June, 1996, the Commonwealth reached an agreement with the Coalition of Public Safety for a three-year contract beginning July 1, 1995 and terminating June 30, 1998. The agreement provided for a 3% wage increase and re-establishment of "sea-pay" for twelve boat-based environmental police officers, both of which were implemented retroactively in July, 1995. The agreement provided for 3% salary increases effective July 7, 1996 and July 6, 1997, as well as an increase in health and welfare contributions and mileage and meals reimbursements, both effective July 1, 1996. The total estimated cost of the agreement is $3.1 million through fiscal 1998. Negotiations have commenced for a successor agreement.

In December, 1996, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three-year contract which commenced on January 1, 1997 and ends on December 31, 1999. The agreement provides for increases in mileage reimbursement, employee meals and health and welfare contribution. The agreement also provides for salary increases of 3% effective May 4, 1997, 3% effective January 4, 1998 and 2.5% effective January 3, 1999. The contract further provides for a bonus of 3.5% of an employee's annual salary effective May 3, 1997 and a 2.5% bonus effective January 1, 1998. The total estimated cost of the agreement is $20.2 million through fiscal year 2000.

Negotiations continue for a successor agreement with MOSES, which represents employees in unit 9.

The following table sets forth information regarding the eleven bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units (1)

Contract Unit	Bargaining Union	Type of Employee	FTEs (All Funds)	Expiration Dates
1	National Association of Government Employees	Clerical	4,920	6/30/01
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,893	6/30/01
3	National Association of Government Employees	Skilled trades	819	6/30/01
4	Massachusetts Correction Officers Federated Union	Corrections	3,784	12/31/97
5	Coalition of Public Safety	Law enforcement	340	6/30/98
5A	State Police Association of Massachusetts	State Police	1,810	6/30/98
6	National Association of Government Employees	Administrative professionals	6,750	6/30/01
7	Massachusetts Nurses Association	Health professionals	1,963	12/31/94
8	Alliance/Service Employees International Union	Social workers	7,425	6/30/99
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,897	12/31/99
10	Alliance/Service Employees International Union	Secondary education	562	6/30/99
	TOTAL		42,163	

SOURCE: Executive Office for Administration and Finance. Number of Standard Workforce FTEs (funded from non-budgeted as well as budgeted funds) as of December 27, 1997.

(1) Totals may not add due to rounding.

COMMONWEALTH CAPITAL SPENDING

Five-Year Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of bond-financed state capital spending. In fiscal 1992 the annual limit was set at approximately $825 million. During fiscal 1995 the limit was raised to approximately $900 million and during fiscal 1998 to approximately $1.0 billion. Actual bond-financed capital expenditures during fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $575.9 million, $760.6 million, $902.2 million, $908.5 million and $956.3 million, respectively. The current plan is set forth in the table below and contains current estimates of capital spending of the Commonwealth, including the MBTA, as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 1998 through 2002. Capital spending for fiscal years 1998 through 2002 to be financed from Commonwealth debt is forecast at $5.050 billion, which is significantly below legislatively authorized capital spending levels. Capital spending for fiscal years 1998 through 2002 to be financed from MBTA bonds supported by Commonwealth contract assistance is forecast at $1.5 billion.

The five-year capital spending plan assumes that the projected receipt of payments from third-party agencies, such as the Massachusetts Port Authority and the Massachusetts Turnpike Authority, or from the issuance of notes in anticipation of such payments, will be $1.355 billion. The five-year capital plan contemplates that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately $4.164 billion for this period and also projects the issuance of $1.5 billion in grant anticipation notes in anticipation of future federal aid to be received during fiscal years 2003 to 2007 and beyond. The latter assumption will require a legislative increase in the authorization for grant anticipation notes. See the discussion below. Federal aid is uncertain until the enactment of successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991, which expired on September 30, 1997 and was extended on an interim basis until March 31, 1998. The Commonwealth is receiving $529 million in federal transportation aid for this interim period (October 1, 1997 to March 31, 1998); under the terms of the interim extension legislation this amount will be included in the calculation of the state's grant entitlement under any such successor legislation. The reauthorization of federal aid being considered by Congress is expected to run through the year 2002 or 2003, although it may be extended for shorter interim periods. Federal funds for the complete repayment of the grant anticipation notes contemplated by the five-year plan would have to be authorized by subsequently enacted successor legislation.

The five-year plan assumes the receipt by the Commonwealth of annual federal highway apportionments of $550 million. The Commonwealth's average annual apportionment under the Intermodal Surface Transportation Efficiency Act of 1991 has been approximately $829 million. Under President Clinton's renewal proposal, which was filed on March 12, 1997, the Commonwealth would receive annual apportionments of approximately $580.0 million. Under legislation that was approved by the Senate Committee on Environment and Public Works on September 17, 1997, and that is still awaiting action by the full Senate, the Commonwealth's annual apportionment would be approximately $392.1 million. Under legislation that was approved by the House Committee on Transportation and Infrastructure on September 24, 1997, but that remains in that committee, the Commonwealth's annual apportionment would be approximately $551.7 million. What the level of future federal highway aid will be for the Commonwealth remains uncertain.

The Executive Office for Administration and Finance regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. Except with respect to fiscal 1998 (see note 6), the table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

Summary of Five-Year Capital Spending Plan and Plan of Finance(1)
(in millions)

	1998	1999	2000	2001	2002	Total
Uses of Funds						
Information Technology	$ 56	$ 48	$ 29	$ 29	$ 29	$ 191
Infrastructure(1)	237	214	202	202	202	1,057
Environment(2)	93	119	105	105	105	527
Wastewater Treatment	8	4	35	35	35	117
Housing	67	67	71	71	71	347
Transportation						
Commonwealth Expenditures	458	488	513	513	513	2,485
Third Party-Supported/Other(3)	341	609	301	100	4	1,355
Grant Anticipation Notes(4)	348	428	554	170	-	1,500
MBTA	278	227	294	358	343	1,500
Federal Highway/MBTA(5)	1,205	925	806	697	531	4,164
Transportation Subtotal	2,630	2,677	2,468	1,838	1,391	11,004
Public Safety	15	9	9	9	9	51
Economic Development	66	51	36	36	36	225
Total	$ 3,172	$ 3,189	$ 2,955	$ 2,325	$ 1,878	$ 13,519
Sources of Funds						
Federal Aid(5)	$ 1,205	$ 925	$ 806	$ 697	$ 531	$ 4,164
Commonwealth Debt(6)	1,050	1,000	1,000	1,000	1,000	5,050
Third Party-Supported/Other(3)	341	609	301	100	4	1,355
Grant Anticipation Notes(4)	348	428	554	170	-	1,500
MBTA Bonds	278	227	294	358	343	1,500
Total	$ 3,222	$ 3,189	$ 2,955	$ 2,325	$ 1,878	$ 13,569

SOURCE: Executive Office for Administration and Finance.

(1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects. Does not include expenditures from the Capital Investment Trust Fund (see "FINANCIAL RESULTS—Selected Financial Data—Statutory Basis," note 7 to table), capital expenditures from any potential year-end surplus (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*") or $50 million for local roads and bridges proposed to be financed by fiscal 1998 supplemental appropriations (see "1998 FISCAL YEAR").

(2) Includes open space acquisition.

(3) The Massachusetts Turnpike Authority and the Massachusetts Port Authority are obligated by statute to make payments to the Commonwealth of $700 million and $200 million, respectively, for use in meeting transportation-related obligations. An additional $400 million payment from the Turnpike Authority will be made subject to receipt of $25 million annually for certain operating costs associated with the Central Artery. As described below, an additional $100 million payment from the Turnpike Authority is now anticipated during calendar year 1999 pursuant to projected operating efficiencies and additional non-toll revenues. An additional $100 million payment from the Port Authority may be required subject to additional study of the Port Authority's capacity to make such payment. Based on current project cost estimates consistent with the "Central Artery/Tunnel Finance Plan" dated September, 1997 prepared by the Central Artery/Ted Williams Tunnel project and the Turnpike Authority. The Commonwealth, subject to legislative approval, expects to issue bond anticipation notes in advance of the receipt of certain payments from the Turnpike Authority and the Port Authority to meet project costs during the peak construction years of the Central Artery/Ted Williams Tunnel project.

(4) The five-year plan contemplates the issuance of grant anticipation notes to finance a portion of the cash requirements of the Central Artery/Ted Williams Tunnel project. The Legislature has already authorized the issuance of up to $1 billion in grant anticipation notes, with no more than $450 million to be issued prior to Congressional enactment of successor legislation to the federal Intermodal Surface Transportation Efficiency Act of 1991, which expired on September 30, 1997. The issuance of up to $1.5 billion would require legislative authorization.

(5) Figures are estimates provided by the Massachusetts Highway Department, Central Artery Project, and are based upon annual federal highway apportionments of $550 million. Actual amounts will depend upon the enactment of successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991.

(6) Includes general obligation bonds and special obligation bonds. Fiscal 1998 sources include $50 million for fiscal 1997 expenditures.

Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

Metropolitan Highway System

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. In conjunction with the project, the Commonwealth has established a Metropolitan Highway System to be owned and operated by the Massachusetts Turnpike Authority. Under legislation approved on August 10, 1995, the Ted Williams Tunnel was transferred to the Turnpike Authority in exchange for an initial payment of $100 million (received in April, 1996), which was financed initially by the issuance of Commonwealth-guaranteed bond anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Commonwealth-Guaranteed Debt; *Massachusetts Turnpike Authority*." The August, 1995 legislation also directed the Turnpike Authority and the Executive Office of Transportation and Construction (EOTC), with participation from the Massachusetts Port Authority on pertinent issues, to prepare a joint feasibility study relating to a unified transportation system in the Boston metropolitan area. The study, which was released on December 5, 1996, included a report prepared by an independent consultant team and proposed recommendations developed jointly by EOTC and the Turnpike Authority.

The feasibility study's recommendations were largely enacted into law in March, 1997. Two "cost centers" were established within the Turnpike Authority, a western cost center (extending from the Massachusetts/New York border to Route 128) and the Metropolitan Highway System (including the Massachusetts turnpike from Route 128 eastward, the Central Artery portion of Interstate 93 and the Ted Williams, Sumner and Callahan Tunnels under Boston harbor). Each cost center is to be financially independent and self-sustaining. The analysis contained in the study indicated that the western cost center could be expected, with no toll adjustments, to support operation and maintenance expenses, provide for capital reinvestment and retire all outstanding debt by 2010, whereupon the roadway would be transferred to the Commonwealth. The analysis further indicated that with certain proposed toll adjustments on the three tunnels and the Tobin Bridge (which is owned and operated by the Massachusetts Port Authority) the Turnpike Authority and the Port Authority would be able to make substantial capital contributions to the Central Artery/Ted Williams Tunnel project. Under the March, 1997 legislation, oversight of project construction was authorized to be transferred from the Massachusetts Highway Department to the Turnpike Authority, and that occurred in July, 1997. The legislation also directed the Executive Office for Administration and Finance, the State Auditor, the Division of Capital Planning and Operations and the Massachusetts Port Authority to undertake a new "asset assessment study" to determine, by March 20, 1998, whether the Port Authority can afford to contribute as much as $300 million toward the cost of the project, rather than the $200 million contribution contemplated by the feasibility study and the legislation.

Additional state spending and borrowing authorization for the Central Artery/Ted Williams Tunnel project were contained in transportation bond legislation approved by Governor Weld on May 16, 1997. The legislation authorized $1.545 billion in spending on federally assisted projects (approximately $1.040 billion for the Central Artery/Ted Williams Tunnel project and $504.7 million for other projects), to be funded by $345 million in state bonds and $1.2 billion in federal grants. The legislation authorized an additional $1.159 billion in future spending for the Central Artery/Ted Williams Tunnel project, to be funded in part by $358.8 million in state bonds. In anticipation of future federal grants, the Commonwealth was authorized to issue up to $1 billion of grant anticipation notes, including up to $100 million for capitalized interest, with up to $900 million of state bonds authorized to pay such notes to the extent federal grants are unavailable to pay the notes, which must mature by June 30, 2007. The administration plans to seek legislation that would extend this maturity date. No more than $450 million of such notes may be issued until the Intermodal Surface Transportation Efficiency Act of 1991 has been reauthorized or successor legislation has been enacted by the United States Congress, and no more than $450 million of such notes may be issued if federal funding in fiscal 1999 falls below $550 million. No more than $900 million of such notes may be issued as general obligations of the Commonwealth or be otherwise payable from general revenues of the Commonwealth. The legislation stipulated that the Massachusetts Turnpike Authority must pay the Commonwealth $700 million by December 31, 1998 to help defray costs of the Central Artery/Ted Williams Tunnel project or any other component of the Metropolitan Highway System, such amount to be in addition to the $100 million already paid on account of the Ted Williams Tunnel.

In determining the appropriate levels of financing contained in the Commonwealth's overall five-year capital spending plan, the Executive Office for Administration and Finance has considered the cash flow needs required to fund the Central Artery/Ted Williams Tunnel project through completion. The table below provides cash flow projections that are consistent with the five-year plan and extend to fiscal 2005, when the project is expected to be completed. (The five-year plan assumes that by the completion of the project it will have required expenditures totaling $11.6 billion, and that insurance reimbursements and proceeds from real estate disposition related to the project will be

received after project completion.) In addition to projecting levels of federal funds and Commonwealth funds of $3.025 billion and $949 million, respectively, the plan of finance contemplates receipt by the Commonwealth of an aggregate of $1.4 billion from the Massachusetts Port Authority and the Massachusetts Turnpike Authority (not including the first $100 million to be received from the Massachusetts Turnpike Authority on June 25, 1998, as described below, which will be used to finance permanently fiscal 1997 project expenditures), bringing total third-party receipts to be received in fiscal 1998 and beyond to $1.5 billion. On July 25, 1997, the Port Authority and the Executive Office for Administration and Finance entered into a memorandum of understanding providing for the payment of the Port Authority's $200 million contribution according to the following schedule: $12,115,000 in fiscal 1998, $30,735,000 in fiscal 1999, $52,236,000 in fiscal 2000 and $104,914,000 in fiscal 2003. Any additional contribution to be made by the Port Authority would be made in fiscal 2004 or later. On September 12, 1997 the Turnpike Authority and the Executive Office for Administration and Finance entered into a memorandum of understanding providing that $100 million of the Turnpike Authority's $700 million obligation will be paid on June 25, 1998 and the balance on December 31, 1998 and that an additional $400 million will be paid by December 31, 2002, subject to the terms of the memorandum of understanding. Payment of this latter amount is subject to (i) the Commonwealth's being obligated to provide $25 million annually to the Authority to compensate it for operating and maintaining the Central Artery, (ii) the Authority's being able to issue $400 million of bonds under the tests for additional bonds contained in its trust agreement and (iii) continued adherence by the Massachusetts Highway Department with a project management agreement previously entered into between the Turnpike Authority and the Commonwealth on July 1, 1997, as it may be amended. The $25 million payment must constitute a binding general obligation of the Commonwealth and be for a term of at least 40 years. Also, the memorandum of understanding recites that it relies on assumptions and findings set forth in the December, 1996 feasibility study, and that the performance of the agreement may not be possible if actual facts and circumstances differ from those assumed in the feasibility study. The Commonwealth agrees in the memorandum of understanding, subject to the terms and conditions of the transportation bond legislation approved on May 16, 1997, to issue not less than $900 million of grant anticipation notes and, subject to the necessary legislative authorization, to issue up to $675 million in additional grant anticipation notes, as described below. Subsequent discussions between the Secretary of Administration and Finance and the Chairman of the Turnpike Authority have resulted in the anticipation of an additional $100 million payment from the Turnpike Authority to be made during calendar year 1999. This additional payment is expected pursuant to projected operating efficiencies and additional non-toll revenues.

An initiative petition certified by the Attorney General on September 3, 1997 and filed with the State Secretary in November, 1997 would prohibit the Turnpike Authority, the Port Authority and any other entity in the Commonwealth, beginning August 15, 1999, from collecting tolls with respect to the use of the Metropolitan Highway System, the Massachusetts Turnpike and the Tobin Bridge. Any such prohibition could be expected to have a materially adverse effect on the ability of the Turnpike Authority or the Port Authority to make the payments described above. The petition provides for a study of the financial implications of the prohibition, which would be submitted to the Legislature by March 31, 1999, in order to determine if compensation would need to be paid for the petition to operate in a constitutional manner. On December 18, 1997 a lawsuit was filed against the Attorney General and the State Secretary challenging the validity of the Attorney General's certification of the petition. See "THE GOVERNMENT—Initiative Petitions."

Central Artery Project Cash Flow Projections
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	Total
Central Artery Uses:	$1,576,212	$1,680,533	$1,522,023	$ 951,830	$480,292	$341,787	$263,735	$58,172	$6,874,584
Central Artery Sources:									
Federal (1)	779,554	512,644	442,116	482,311	326,178	249,471	202,807	30,261	3,025,342
Commonwealth (2)	108,000	131,000	225,000	200,000	150,000	65,300	50,000	20,000	949,300
Subtotal	887,554	643,644	667,116	682,311	476,178	314,771	252,807	50,261	3,974,642
Remaining Funding Requirement	688,658	1,036,889	854,907	269,519	4,114	27,016	10,928	7,911	
Third Party Contribution (3)	45,031	608,889	87,000	54,080	0	505,000	50,000	50,000	1,400,000
Cash Funding Subtotal	932,585	1,252,533	754,116	736,391	476,178	819,771	302,807	100,261	5,374,642
Cash Need	643,627	428,000	767,907	215,439	4,114	(477,984)	(39,072)	(42,089)	
GANS (4)	348,000	428,000	554,000	170,000	0	0	0	0	1,500,000
BANS (5)	295,627	0	213,907	45,439	4,114	0	0	0	559,087

SOURCE: Executive Office for Administration and Finance

(1) Assumes a $550 million annual apportionment from the Federal Highway Administration. Amounts reflect the utilization of prior fiscal year federal authorizations actually expended in subsequent fiscal years. The amount of annual apportionment not used for current project costs are expected to be available to repay grant anticipation notes and to fund the statewide road and bridge program.
(2) General obligation bond-supported expenditures within the state transportation capital spending cap.
(3) Cash contributions expected from the Massachusetts Turnpike Authority and the Massachusetts Port Authority. Amounts are identified to the year in which they are applied to expenditures, regardless of when they are received. Except for $100 million expected to be received in fiscal 1998 and applied to reimbursement of fiscal 1997 expenditures (and, accordingly, not included on the table), contributions are applied to current-year or subsequent-year expenditures.
(4) Subject to enactment of legislation increasing the authorized amount, notes issued in anticipation of future federal grants to be received from the Federal Highway Administration.
(5) Subject to enactment of legislative authority, notes issued in anticipation of future third-party contributions to be received from the Massachusetts Turnpike Authority and the Massachusetts Port Authority.

Proposed Capital Spending Authorizations

On May 13, 1997, the Legislature enacted a bond authorization bill that would authorize $685.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth. On May 16, 1997 Governor Weld returned the bill to the Legislature with amendments that would eliminate the requirement that all bids associated with the courthouse improvements be awarded only to union contractors. The Legislature has not yet acted on the proposed amendments.

On February 11, 1998, the House of Representatives approved legislation that would authorize $202 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects. The bill is now being considered by the Senate Committee on Ways and Means.

On June 9, 1997, Governor Weld filed legislation that would authorize $73 million of Commonwealth general obligation bonds to finance capitalization grants to the Massachusetts Water Pollution Abatement Trust, of which $31 million would provide matching funds for the state revolving fund program under the federal Clean Water Act and $42 million would provide matching funds for a new state revolving fund program under the federal Safe Drinking Water Act. See "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust." The legislation is being considered by the Legislature's Natural Resources Committee. On September 11, 1997, the House Committee on Long-Term Debt and Capital Expenditures approved an amended version of similar legislation that would authorize $29.4 million of Commonwealth general obligation bonds to finance state capitalization grants for the Safe Drinking Water Act program. On November 12, 1997, the House approved legislation that would create a new state revolving fund program under the federal Safe Drinking Water Act, and which would authorize $52.8 million of Commonwealth general obligation bonds to finance capitalization grants to the Massachusetts Water Pollution Abatement Trust, of which $23.4 million would provide matching funds for the state revolving fund program under the federal Clean Water Act and $29.4 million would provide matching funds for a new state revolving fund program under the federal Safe Drinking Water Act. On February 3, 1998, the Senate approved legislation that would authorize matching funds in such amounts to be transferred directly from the General Fund of the Commonwealth rather than financed by the issuance of bonds. On February 10, 1998, the House approved a bill that would authorize matching funds of $59.5 million to be transferred directly from the General Fund of the Commonwealth, $27.1 million of which would provide matching funds for the state revolving fund program under the federal Clean Water Act and $32.4 million of which would provide matching funds for the new state revolving fund program under the federal Safe Drinking Water Act. The bills are now under consideration by a joint conference committee.

On June 11, 1997, Governor Weld filed legislation that would authorize $10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall Building, a 30-year-old state office building. Under the legislation, the renovations themselves would be financed by the issuance by the Massachusetts Industrial Finance Agency of up to $100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." The legislation was referred to the Legislature's Committee on State Administration, which filed a report on August 28, 1997 recommending that the committee be authorized to study the proposal further and report its findings to the Legislature by December 30, 1998.

On September 25, 1997, Acting Governor Cellucci filed legislation that would authorize the town of Foxboro to issue up to $20 million of special obligation bonds to acquire the land surrounding Foxboro Stadium and up to an additional $30 million of special obligation bonds to improve the public infrastructure on such land. The Commonwealth would be obligated to provide contract assistance to the town to pay the debt service on such bonds. The stadium owner would be required to invest a like amount in stadium improvements. The land acquired by the town would be leased to an affiliate of the stadium owner without compensation for up to 99 years. Under the terms of the lease, the lessee would be solely responsible for the planning, design, acquisition, construction, installation, maintenance and operation of the infrastructure improvements. The lessee, the stadium owner or another appropriate person would be required to maintain the stadium for the purpose of conducting therein the business of a National Football League team unless it exercised its option to purchase the improved land or the lease had expired. On November 17, 1997, the House approved a revised version of the Governor's bill. Under the House bill, the Commonwealth would be obligated to provide contract assistance sufficient to defray the debt service costs associated with up to $52 million in bonds issued by the town of Foxboro for infrastructure improvements on the stadium site and adjacent areas, but such assistance would be offset by revenues pledged by the stadium lessee or by the town, including a mandatory "administrative fee" to be charged on all parking spaces licensed by the town within a three-mile radius of the stadium. Any shortfall in annually projected revenues from the parking fee would be offset by a deduction from local aid otherwise due from the Commonwealth to the town. The bill is now being considered by the Senate Committee on Ways and Means.

On October 2, 1997, Acting Governor Cellucci filed bond legislation that would authorize the Massachusetts Bay Transportation Authority to issue an additional $230.7 million of bonds to be backed by 90% Commonwealth contract assistance. The bill would also authorize the MBTA to issue bonds payable solely from its own revenues. The bill would also authorize and direct the Executive Office for Administration and Finance, on behalf of the Commonwealth, to enter into a contract with the Massachusetts Turnpike Authority no later than June 30, 1999 pursuant to which the Commonwealth would agree to provide annual amounts to the Turnpike Authority to cover the cost of operating and maintaining the Central Artery and the Central Artery North Area, as certified by the Turnpike Authority, but not less than $2 million on account of fiscal 2000, not less than $5 million on account of each fiscal year

thereafter prior to the transfer of the final segment of the Central Artery and the Central Artery North Area to the Authority and not less than $25 million for each of the 40 fiscal years after such transfer. The bill would also amend the transportation bond legislation approved by Governor Weld on May 16, 1997 to authorize an additional $500 million of Commonwealth notes in anticipation of payments from the Massachusetts Port Authority and the Turnpike Authority, bringing the total of such notes to $1.5 billion. The new $500 million of notes would not be subject to the $450 million cap relating to renewal of the Intermodal Surface Transportation Efficiency Act of 1991. The bill is now being considered by the Legislature's Committee on Transportation.

It is the plan of the Executive Office for Administration and Finance to approve expenditures from all pertinent bond authorizations in a manner consistent with the five-year capital spending plan.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or (b) by a two-thirds vote of the members of each house of the Legislature present and voting thereon. The constitution further provides that borrowed money shall not be expended for any other purpose than that for which it was borrowed or for the reduction or discharge of the principal of the loan. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which term includes bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

Commonwealth Bonds and Notes. The Commonwealth is authorized to issue two types of debt: general obligation debt and special obligation debt. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Boston Convention and Exhibition Center Fund. See "Special Obligation Debt."

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth-supported debt, (b) Commonwealth-guaranteed debt or (c) indirect obligations. Commonwealth-supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the Massachusetts Bay Transportation Authority (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Commonwealth-guaranteed debt consists of certain liabilities arising out of the Commonwealth's guaranties of the bonds of the two higher education building authorities and certain bond anticipation notes of the Massachusetts Turnpike Authority. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain Massachusetts Housing Finance Agency bonds, (ii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated to the Board, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Executive Office of Public Safety, to fund debt service from amounts appropriated by the Legislature to the Executive Office of Public Safety, on certificates of participation issued to finance the Plymouth County Correctional Facility and (iv) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center in the city of Chelsea. See "Indirect Obligations." In addition, the Commonwealth has liabilities under certain tax-exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS—Long-Term Capital Leases."

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 1998.

Commonwealth Bond and Note Liabilities
January 1, 1998
(in thousands)

	Long-Term(1)	Short-Term
General Obligation Debt	$ 9,594,788(2)	0
Special Obligation Debt	628,575	0
Subtotal Commonwealth Debt	10,223,363	0
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,278,345 (3)	$325,000 (4)
Massachusetts Convention Center Authority	116,259	0
Massachusetts Govemment Land Bank	88,305	0
Boston Metropolitan District	38,992	0
Steamship Authority	36,769	0
Regional transit authorities	0	70,605
Subtotal Supported Debt	3,558,760	395,605
COMMONWEALTH-GUARANTEED DEBT		
Massachusetts Tumpike Authority	0	55,905
Higher education building authorities	235,839	0
Subtotal Guaranteed Debt	235,839	55,905
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	$14,017,962	$451,510

SOURCE: Office of the State Treasurer, Office of the Comptroller and respective authorities and agencies.

(1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES—Long-Term Capital Leases."

(2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1998 through their maturity in the amount of $282.4 million. The Commonwealth issued $250 million of bonds on January 29, 1998.

(3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations.

(4) Includes $165 million of notes due February 27, 1998 and $160 million of notes due September 4, 1998. The MBTA expects to sell notes on February 24, 1998 in the amount of $165 million which will mature on February 26, 1999; such notes are expected to be delivered on February 27, 1998. In addition, as of February 13, 1998, the MBTA has outstanding $68 million of commercial paper issued as bond anticipation notes. See "Commonwealth Supported Debt; *Massachusetts Bay Transportation Authority*."

Long-Term Bond Liabilities(1)(2)
Commonwealth Debt and Commonwealth-Supported Debt
(in thousands)

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Commonwealth Long-Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt (5)	Total (4)
1993	$8,082,823	$1,044,865	$103,770	$9,231,458	$2,015,405	$291,482	$11,538,345
1994	8,184,165	839,810	403,770	9,427,745	2,165,230	277,655	11,870,630
1995	8,614,766	618,980	394,720	9,628,466	2,399,780	273,410	12,301,656
1996	9,147,353	382,965	535,260	10,065,578	2,283,330	256,916	12,605,824
1997	9,620,633	129,900	520,760	10,271,293	3,043,815	223,882	13,538,990

SOURCE: Office of the State Treasurer and Office of the Comptroller.

(1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1993--$389.4 million; fiscal 1994--$361.5 million, fiscal 1995--$331.6 million, fiscal 1996--$321.4 million; fiscal 1997—$198.6 million.
(4) Totals may not add due to rounding.
(5) Includes bonds of the Massachusetts Convention Center Authority, the Steamship Authority, the Government Land Bank and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

Long-Term Debt Analysis. The following table sets forth outstanding long-term Commonwealth debt and Commonwealth-supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

Long-Term Debt Analysis
Commonwealth Debt and Commonwealth-Supported Debt

June 30	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita (3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1993	$11,538,345	$11,148,945	$1,853	$2.85	$7.58
1994	11,870,630	11,418,996	1,890	2.92	7.76
1995	12,301,656	11,970,088	1,952	3.28	7.03
1996	12,605,824	12,284,394	1,995	3.26	7.19
1997	13,538,990	13,340,390	2,166	3.54	7.81

SOURCE: Office of the State Treasurer and Office of the Comptroller.

(1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority, the Steamship Authority, the Government Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See table of "Long-Term Bond Liabilities; footnote 3" above.
(3) Based on United States Census resident population estimates for Massachusetts of 6,018,000 for 1993, 6,041,185 for 1994, 6,133,000 for 1995, 6,159,000 for 1996 and 1997.
(4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $391.0 billion for 1993, $365.2 billion for 1994 and 1995 and $377.2 billion for 1996 and 1997.
(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $147.1 billion for 1993 and 1994, $170.2 billion for 1995 and $170.8 billion for 1996 and 1997.

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of January 1, 1998.

Maturities of Short-Term Liabilities
January 1, 1998
(in thousands)

Month Due	MBTA	MTA	Regional Transit Authorities	Total
Fiscal 1998	$165,000	-	$ 26,975	$ 191,975
Fiscal 1999	160,000	$ 55,905	43,630	259,535
Total	$ 325,000	$ 55,905	$ 70,605	$451,510

SOURCE: Office of the State Treasurer and respective authorities and agencies.

General Obligation Debt

The Commonwealth issues general obligation bonds and notes pursuant to Chapter 29 of the General Laws. Pursuant to Chapter 29, general obligation bonds and notes issued thereunder shall be deemed to be general obligations of the Commonwealth to which its full faith and credit are pledged for the payment of principal and interest when due, unless specifically provided otherwise on the face of such bond or note.

Notes. The Commonwealth is authorized to issue short-term general obligation debt as (i) revenue anticipation notes, (ii) bond anticipation notes, (iii) transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA or (iv) grant anticipation notes for the Central Artery/Ted Williams Tunnel project.

Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial paper program, the Commonwealth may issue up to $600 million of short-term general obligation debt under three series of notes; a line of credit is available through September 30, 1999 to secure up to $200 million of principal of such commercial paper, a letter of credit is available through October 31, 2000 to secure up to $200 million of principal of such commercial paper, and another letter of credit is available through September 1, 1998 to secure the balance of such commercial paper. As of February 13, 1998, the Commonwealth has no outstanding commercial paper, and none has been issued during fiscal 1998.

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws and may mature in the current or the next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority." As of February 13, 1998, the Commonwealth has no outstanding transit notes.

Grant anticipation notes may be issued for the purposes of the Central Artery/Ted Williams Tunnel project in an amount up to $1 billion, including up to $100 million for capitalized interest, with up to $900 million of state bonds authorized to pay such notes to the extent federal highway funding grants are unavailable to pay the notes, which must mature by June 30, 2007. The administration plans to seek legislation to extend this maturity date. See "COMMONWEALTH CAPITAL SPENDING—Five-Year Capital Spending Plan" and "—Metropolitan Highway System."

U. Plan. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year in a manner appropriate to the purposes of one or more college savings programs. Pursuant to such authorization, the Commonwealth has outstanding approximately $64.8 million of bonds (not including accreted interest) in conjunction with the Massachusetts College Savings Program (known as the "U. Plan") administered by the Massachusetts Educational Financing Authority. Under the program, such bonds are issued annually on August 1; the Commonwealth issued approximately $26.1 million of such bonds in 1995, approximately $19.0 million in 1996 and approximately $19.9 million in 1997. To facilitate the goals of the program, such bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2%, together with current interest at the rate of 0.5%.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding $50 million net proceeds per year) in the form of small denomination bonds, or "minibonds," which are redeemable at the option of the holder on any business day prior to maturity (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

Special Obligation Debt

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of January 1, 1998, the Commonwealth had outstanding $629 million of such special obligation bonds, including $103.8 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and three series of bonds, $281.5 million (issued in June, 1994), $150 million (issued in March, 1996), and $294.7 million (issued in October, 1997, of which $188.8 million were refunding bonds) secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. The bonds issued in October, 1997 advance refunded a portion of the bonds issued in 1992, such that after June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

Chapter 11 of the Acts of 1997 provides that grant anticipation notes issued for the purposes of the Central Artery/Ted Williams Tunnel project may also be issued as special obligations pursuant to Section 2*O* of Chapter 29 if they are to be paid from the proceeds of bonds issued pursuant to Section 2*O*.

Boston Convention and Exhibition Center Fund. Chapter 152 of the Acts of 1997 authorizes $676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston ($609.4 million), the Springfield Civic Center ($48.5 million) and the Worcester convention center ($19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by the legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 1998, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds and special obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1)
January 1, 1998
(in thousands)

	GENERAL OBLIGATION BONDS				SPECIAL OBLIGATION BONDS			
Fiscal Year	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	Total Debt Service Commonwealth Bonds
1998	$213,516	$8,675	$201,022	$423,213	$22,570	$16,420	$38,990	$462,204
1999	595,672	19,635	450,366	1,065,673	20,275	31,842	52,117	1,117,790
2000	564,597	33,792	415,312	1,013,701	21,245	30,877	52,122	1,065,824
2001	617,008	23,247	384,012	1,024,267	22,290	29,830	52,120	1,076,386
2002	548,757	54,428	351,925	955,111	23,415	28,708	52,123	1,007,234
2003	555,885	58,346	325,191	939,423	24,865	27,258	52,123	991,546
2004	521,844	77,965	299,214	899,022	26,070	26,051	52,121	951,143
2005	520,596	92,452	274,344	887,392	27,370	24,758	52,128	939,520
2006	519,935	100,321	250,444	870,699	28,805	23,315	52,120	922,819
2007	593,041	32,976	222,511	848,528	30,350	21,774	52,124	900,652
2008	607,922	3,643	192,651	804,217	31,995	20,126	52,121	856,338
2009	591,469	4,108	159,587	755,164	33,675	18,444	52,119	807,282
2010	521,822	3,789	127,929	653,540	35,335	16,791	52,126	705,666
2011	508,054	4,128	99,339	611,522	37,300	14,829	52,129	663,650
2012	374,656	4,207	72,192	451,056	39,320	12,813	52,133	503,189
2013	371,224	4,687	52,358	428,269	41,470	10,650	52,120	480,389
2014	255,598	2,984	36,449	295,030	37,530	8,369	45,899	340,930
2015	235,999	2,064	23,571	261,634	39,455	6,440	45,895	307,529
2016	194,612	1,176	12,946	208,735	41,530	4,368	45,898	254,633
2017	107,943	419	5,461	113,823	43,710	2,186	45,896	159,719
2018	39,602	168	1,084	40,855	--	--	--	40,855
2019 and thereafter	1,824	--	221	2,045	--	--	--	2,045
TOTAL	$9,061,578	$533,211	$3,958,130	$13,552,919	$628,575	$375,848	$1,004,423	$14,557,342

SOURCE: Office of the State Treasurer and Office of the Comptroller.

(1) Totals may not add due to rounding.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. The limit did not apply to certain bonds issued in 1990 to fund the fiscal 1990 operating deficit (Fiscal Recovery Bonds), the final maturity of which was paid on December 1, 1997. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are also not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of January 1, 1998.

Statutory Debt Limit on Direct Bonds
(in thousands)

Date	Outstanding Direct Bonds	Statutory Limit on Direct Bonds
July 1, 1990	$6,010.063	$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
July 1, 1996	8,094,713	9,112,650
July 1, 1997	8,696,918	9,568,283
January 1, 1998	8,758,596	9,568,283

SOURCE: Office of the State Treasurer and Office of the Comptroller.

Limit on Debt Service Appropriations

In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. The limit did not apply to the Fiscal Recovery Bonds. Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

Debt Service Expenditures
(in millions)

Fiscal YearDebt Service (1)	Expenditures and Other Uses	Total Budgeted Percentage	
1993	$861.1	$14,696.4	5.9%
1994	872.3	15,522.9	5.6
1995	953.0	16,250.5	5.9
1996	905.1	16,881.1	5.4
1997	997.6	17,949.0	5.6
1998(estimated)	1,090.1	18,848.3	5.8

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Excludes $278.4 million in fiscal 1993, $277.1 million in fiscal 1994, $277.9 million in fiscal 1995, $277.9 million in fiscal 1996, $277.9 million in fiscal 1997 and $134.1 million in fiscal 1998 for interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. Authorized but unissued general obligation debt at fiscal year end, and capital expenditures in the capital projects funds, excluding the Federally Assisted Highway Construction Fund, in the fiscal year ending on such date, are as follows:

Authorized but Unissued General Obligation Debt
(in thousands)

Date	Authorized but Unissued General Obligation Debt	Capital Expenditures(1)
June 30, 1993	$4,614,367	$575,884
June 30, 1994	4,512,297	760,618
June 30, 1995	5,942,807	901,982
June 30, 1996	8,182,844	908,472
June 30, 1997	11,954,142	1,152,456

SOURCE: Office of the Comptroller.

(1) Does not include expenditures reimbursed by the federal government. Does not include $1.892 billion, $835.7 million, $513.6 million and $722.6 million of refunding bond proceeds paid to escrow agents in fiscal 1993, fiscal 1994, fiscal 1995 and fiscal 1996, respectively, in order to defease then-outstanding general obligation bonds.

As of January 1, 1998, there was approximately $12.3 billion of authorized but unissued general obligation debt.

Authorized but unissued debt is measured in accordance with the statutory basis of accounting, which is different from GAAP. Only the net proceeds of bonds issued (exclusive of discount and costs of issuance) are deducted from the amount of authorized but unissued debt. Therefore, the change in authorized but unissued debt at the end of any fiscal year is not intended to correlate to the change in the amount of debt outstanding as measured and reported in conformity with GAAP.

There is $50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also $676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, in the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of January 1, 1998 (included as Authorized but Unissued General Obligation Debt in the table above) is $4.052 billion.

Commonwealth-Supported Debt

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (i) a Commonwealth guaranty of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (ii) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (iii) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES—MBTA." As of January 1, 1998, the MBTA had $3.278 billion of outstanding long-term bonds (exclusive of bonds that have been refunded) and $325 million of outstanding short-term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to $200 million of notes may be outstanding under this program. The notes are general obligations of the MBTA, and 90% of the interest thereon is payable from contract assistance to be provided by the Commonwealth.

Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (i) a

Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (ii) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (iii) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments.

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1998, the Convention Center Authority had $116.3 million of outstanding bonds on which the Commonwealth will pay approximately $24.6 million in debt service contract assistance payments in fiscal 1998.

Massachusetts Government Land Bank. The Government Land Bank assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Government Land Bank has direct borrowing power, and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to $6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999, plus contract assistance necessary to defray the debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. Like the Massachusetts Convention Center Authority assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 1998, the Land Bank had $88.3 million of bonds outstanding, which are secured by the contract assistance from the Commonwealth, as described above.

Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt

The following table sets forth, as of January 1, 1998, the debt service contract assistance requirements on outstanding bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth is obligated to pay 90% of the debt service on the MBTA's bonds (the figures in the table reflect 90% of total MBTA debt service) and 100% of the debt service on the Convention Center Authority's bonds and the Land Bank's bonds. The table does not include general contract assistance which is provided to the MBTA and to the regional transit authorities to help defray their net cost of service.

DEBT SERVICE CONTRACT ASSISTANCE REQUIREMENTS ON COMMONWEALTH-SUPPORTED DEBT(1)
(in thousands)

Fiscal Year	MBTA	Convention Center Authority	Land Bank	Total
1998 (partial year)	$ 183,449	$ 4,944	$ 2,995	$ 191,388
1999	276,276	24,655	13,285	314,216
2000	274,806	24,658	13,282	312,746
2001	273,321	24,647	13,285	311,253
2002	269,683	20,371	13,280	303,334
2003	272,188	16,380	13,280	301,848
2004	270,109	16,340	13,283	299,732
2005	267,689	16,304	13,281	297,274
2006	264,295	14,737	13,280	292,312
2007	254,346	2,534	10,162	267,042
2008	249,776	2,535	-	252,311
2009	237,525	2,536	-	240,061
2010	236,553	2,536	-	239,089
2011	234,651	2,536	-	237,187
2012	225,990	2,535	-	228,525
2013	220,512	2,538	-	223,050
2014	210,440	2,538	-	212,978
2015	185,019	-	-	185,019
2016	166,738	-	-	166,738
2017	159,202	-	-	159,202
2018	154,302	-	-	154,302
2019	154,243	-	-	154,243
2020	153,187	-	-	153,187
2021	153,179	-	-	153,179
2022	132,991	-	-	132,991
2023	105,418	-	-	105,418
2024	94,868	-	-	94,868
2025	80,895	-	-	80,895
2026	53,384	-	-	53,384
2027	26,329	-	-	26,329
Total	$ 5,841,364	$ 183,324	$ 119,413	$ 6,144,101

Sources: MBTA column—MBTA; Massachusetts Convention Center Authority and Land Bank columns—Office of the State Treasurer.

(1) Totals may not add due to rounding.

Commonwealth-Guaranteed Debt

Higher Education Building Authorities. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations.

Massachusetts Turnpike Authority. The Turnpike Authority was created in 1952 to operate and maintain the Massachusetts Turnpike, a limited access toll express highway extending approximately 135 miles from the Commonwealth's border with New York State to downtown Boston. In addition, the Turnpike Authority was authorized in 1958 to operate and maintain the Callahan Tunnel and the Sumner Tunnel, which have served as the primary link between downtown Boston and Logan International Airport in East Boston. In 1995 the Ted Williams Tunnel was transferred to the Turnpike Authority pursuant to legislation that authorized the Authority to issue, prior to June 30, 1999, up to $300 million of Commonwealth-guaranteed notes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the Ted Williams Tunnel. On February 1, 1996, the Authority issued $259,315,000 of Commonwealth-guaranteed bond anticipation notes, to provide for, among other things the payment

to the Commonwealth of $100 million as partial payment for the Ted Williams Tunnel. Such moneys were paid to the Commonwealth on April 26, 1996. The Commonwealth has unconditionally guaranteed the payment of principal and interest of such notes and has pledged its full faith and credit to the payment of such notes. On October 2, 1997, the Turnpike Authority issued bonds to advance refund all but $55,905,000 of such notes. The Authority expects to defease the remaining notes prior to their June 1, 1999 maturity date from net revenues of the Authority. Alternatively, the Turnpike Authority may issue additional bonds to finance the payment or defeasance of the notes.

Indirect Obligations

Massachusetts Housing Finance Agency (MHFA) and Massachusetts Home Mortgage Finance Agency (MHMFA). The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to $2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA also provides mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a $1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing. MHMFA no longer has any bonds outstanding, and the issuance of additional debt of MHMFA is not currently contemplated.

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of January 1, 1998, multi-family obligations of the MHFA totaled approximately $2.216 billion (of which approximately $649.7 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately $1.356 billion (none of which was secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately $483.5 million for multi-family bonds and approximately $344.1 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority (HEFA) issued, in January, 1992, $17,390,000 of its Revenue Bonds, Community Colleges Program Issue, Series A (the "Community Colleges Bonds") in order to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Higher Education Coordinating Council (now the Board of Higher Education), entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Board of Higher Education is obligated to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated to the Board in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to the Board, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued $110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the 1,140-bed Plymouth County Correctional Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement with Plymouth County, under which the

Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the City of Chelsea, acting through its industrial development financing authority, issued $95,750,000 aggregate principal amount of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (MIFA) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and MIFA entered into an interest rate swap agreement with respect to the full amount of the bonds pursuant to which MIFA will receive variable rate payments equal to the interest due on the bonds and be obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease with MIFA which provides for the payment of debt service on the bonds and other expenses and costs associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The bonds are limited obligations of the city of Chelsea and do not constitute a debt or pledge of the faith and credit of the city.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers' retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. On June 6, 1997 Governor Weld approved legislation removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund increased costs due to future cost-of-living adjustments.

Pension Reserves and Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation—5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 (plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979) and 9% (12% for members of the state police) for those hired on or after July 1, 1996.

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years.

Pension Funding Plan. Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997, as part of the fiscal 1998 budget, to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation

reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are required to be filed with the Legislature triennially by March 1 and are subject to legislative disapproval. The most recent funding schedule which has been approved by the Legislature was filed on November 6, 1996, before the enactment of the provisions in the fiscal 1998 budget truncating the amortization period by ten years and before the enactment of June, 1997 legislation providing for local retirement systems with funding schedules to assume responsibility for cost-of-living allowances (formerly an obligation of the Commonwealth). The Executive Office for Administration and Finance anticipates the filing of a new schedule, incorporating such legislative changes, in 1998. Under the pension legislation, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

Under current law, the funding schedule must not provide for any reductions in the pension reserves (as of January 1, 1988, plus growth at the actuarially assumed investment rate) in the first ten years of the schedule. The current schedule uses a twenty year level amortization funding schedule. In connection with his proposed budget recommendations for fiscal 1999, Acting Governor Cellucci has proposed overriding the foregoing requirement relating to the first ten years of the schedule in order to limit required expenditures in fiscal 1999 to approximately $945.3 million. See "1999 FISCAL YEAR."

Current Funding Schedule and Actuarial Valuations. The following funding schedule was developed in conjunction with the fiscal 1998 budget provisions requiring that the unfunded actuarial liability be eliminated at the beginning of fiscal year 2019.

Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1998	$1,045,570	2009	$1,221,727
1999	1,059,215	2010	1,589,678
2000	1,073,406	2011	1,598,942
2001	1,088,165	2012	1,615,496
2002	1,103,514	2013	1,857,572
2003	1,119,477	2014	1,875,134
2004	1,136,078	2015	1,893,222
2005	1,153,344	2016	1,911,853
2006	1,171,300	2017	1,931,043
2007	1,212,605	2018	678,620
2008	1,232,026		

SOURCE: Executive Office for Administration and Finance, Division of Fiscal Affairs.

The funding schedule shown above is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement systems as of January 1, 1996 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1996, relative to the two state systems, to Boston teachers and to cost of living allowances for local systems, is reported in the most recent actuarial valuation performed by the Public Employee Retirement Administration Commission to be approximately $4.774 billion, $476.6 million and $1.470 billion, respectively, for a total unfunded actuarial liability of $6.720 billion. The valuation as of January 1, 1996 is based on actuarial assumptions including future investment earnings at a rate of 8.5% per year, annual salary increases at 6% and annual cost of living increases for pensioners at the rate of 3% on the first $9,000 of benefits. Pursuant to a legislative mandate contained in the fiscal 1998 budget, the funding schedule set forth above assumes future investment earnings at a rate of 8.25%, rather than the assumed rate of 8.5% used in the January 1, 1996 valuation. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

On June 6, 1997, Governor Weld approved legislation that provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the

United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The funding schedule for the state systems assumes that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds. On August 9, 1996, the Governor approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems then managed by the State Treasurer. Such transfer occurred on November 7, 1996.

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1997, rental expenditures under these operating leases totaled approximately $116.1 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1997 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Operating Leases
June 30, 1997
(in thousands)

Fiscal Year	Operating Leases
1998	$96,202
1999	75,860
2000	55,078
2001	34,772
2002 and thereafter	34,020
Total	$295,932

SOURCE: Office of the Comptroller.

Long-Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases. Typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles.

Long-term total principal and interest obligations at June 30, 1997 related to capital leases are as follows:

Capital Lease Obligations
June 30, 1997
(in thousands)

Fiscal Year	Capital Leases
1998	$26,426
1999	23,114
2000	16,707
2001	10,535
2002 and thereafter	26,573
	$103,355(1)

SOURCE: Office of the Comptroller.

(1) As of June 30, 1997, the principal amounts of these obligations were $87.2 million.

Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund purchases of debt from local governmental units to finance eligible water pollution abatement projects. To date, the Trust has available approximately $506 million in federal grants and approximately $101 million in Commonwealth matching grants to capitalize the fund. The Trust has also received additional Commonwealth grants of approximately $21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to $133.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the revolving fund and to finance other costs of the revolving fund program. On July 30, 1996, the Governor approved bond legislation authorizing an additional $20 million in Commonwealth bonds for capitalization matching grants to the Trust's revolving fund. As part of its supplemental budget for fiscal year 1998, the Commonwealth has appropriated an additional $7.6 million in state matching funds for the program from surplus funds.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of February 2, 1998, the Trust had approximately $825 million of bonds outstanding for such purposes. At such date, approximately $66 million of interim loans from the Trust to local governmental units were also outstanding; such loans are expected to be refinanced from the proceeds of bonds to be issued during fiscal 1998. The Trust also has approximately $267 thousand in direct loans outstanding to local governmental units.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to $34 million in the aggregate in each fiscal year through fiscal year 2025. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. Legislation approved in August, 1996 requires the Trust, in connection with any loan made on or after October 1, 1995, to provide debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of 50% of the eligible cost of the financed project.

The Trust's revolving fund program also includes the provision of financial assistance to local governmental units for the implementation of nonpoint source pollution control management programs, including loans ("Title 5 Loans") to fund community septic management loan programs ("Title 5 Projects") to assist eligible homeowners to upgrade failing septic systems and otherwise to comply with the requirements of Title 5 of the State Environmental Code. Title 5 Projects which qualify for financial assistance under the Clean Water Act may be directly or indirectly funded with federal grants and Commonwealth matching grants or with moneys specifically appropriated for such purpose by the Commonwealth. By February 1, 1999, the Trust expects to make up to $5 million of Title 5 Loans to local governmental units from the proceeds of bonds it issued in April, 1997. In addition, the Trust has made grants of $3 million, from funds received from the Commonwealth, to local governmental units for the administrative costs of implementing Title 5 projects. The Trust has also made $7 million of interim loans to local governmental units for Title 5 Projects.

On August 6, 1996, the President signed the federal Safe Drinking Water Act, which creates a new state revolving fund program for drinking water and provides authorization for $1 billion per year in federal capitalization grants through federal fiscal year 2003. The Trust has been informed by the federal Environmental Protection Agency that it is eligible for $14.3 million in federal funding under this program for federal fiscal year 1997 and $27.4 million

for federal fiscal year 1998. Like the wastewater program, the new program requires a 20% state match to receive federal capitalization grants. The Trust's enabling legislation already authorizes it to administer such a loan program. Legislation authorizing a new drinking water revolving fund program and Commonwealth matching funds has been passed by the House and the Senate, and is being considered by a joint conference committee. See "COMMONWEALTH CAPITAL SPENDING—Proposed Capital Spending Authorizations."

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of July 1, 1997.

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1998	$211,136	2009	$ 187,306
1999	235,368	2010	179,324
2000	230,550	2011	164,277
2001	226,634	2012	141,625
2002	222,489	2013	129,948
2003	219,972	2014	113,574
2004	215,476	2015	98,068
2005	210,283	2016	83,998
2006	204,296	2017	65,121
2007	200,481	Total	$3,534,617
2008	194,691		

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 1997 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $1.356 billion. The Division of Employment and Training's January, 1998, quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of $1.649 billion in the Unemployment Compensation Trust Fund by December, 1998 and rebuild reserves in the system to $2.318 billion by the end of 2002. See Exhibit A, "Economic Information," under the heading "Employment—Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1997 statutory basis financial statements contained in the Statutory Basis Financial Report included by reference as Exhibit B and

Note 3 to the fiscal 1997 GAAP-basis financial statements contained in the Comprehensive Annual Financial Report included by reference as Exhibit C.

LITIGATION

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson,* Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid; *Commonwealth Financial Support for Local Governments*." On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. It cannot be determined at this time what further action, if any, the plaintiffs in McDuffy may take or whether the court will order any further relief.

Challenges by residents of five state schools for the retarded in *Ricci v. Murphy* (U.S. District Court C.A. No. 72-469-T) resulted in a consent decree in the 1970's which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in western Massachusetts. The District Court issued orders in October, 1986 leading to termination of active judicial supervision. On May 25, 1993, the District Court entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provisions for individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters.

In *Hodge v. Gallant* (Suffolk Superior Court No. 93-0290G), plaintiffs allege that the Division of Medical Assistance has unlawfully denied personal care attendant services to certain disabled Medicaid recipients. The Superior Court denied plaintiffs' motions for a preliminary injunction and class certification. If plaintiffs were to prevail on their claims and the Commonwealth were required to provide all of the services sought by plaintiffs to all similarly situated persons, a substantial increase in the annual cost to the Commonwealth of these services might eventually be required. The Division of Medical Assistance currently estimates this increase to be as much as $200 million per year. In September, 1995, the parties argued cross motions for summary judgment, which are now under advisement.

In *Beaulieu v. Belmont* (U.S. District Court No. 95-12382GAO), the plaintiffs are former residents of the Fernald School, a facility of the Department of Mental Retardation. They allege that in the 1950's they were fed radioactive isotopes without their informed consent. They claim violations of their civil rights, battery, invasion of privacy, loss of consortium and misrepresentation. The amount of potential liability is estimated to be $25 million.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities

necessary to achieve compliance with the federal requirements. During fiscal 1997, the MWRA completed the mining of the 9.5-mile outfall tunnel, completed the draft combined sewer outflow (CSO) plan and began design of several CSO projects, completed construction of the first battery of secondary treatment and began construction of the third and final battery of secondary treatment. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $601 million to be spent after June 30, 1997. With CSO costs, the MWRA anticipates spending approximately $901 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. The MWRA is gathering data to determine whether a water filtration plant is necessary and anticipates completing its inquiry by the fall of 1998. Attorneys for the MWRA and the MDC have been negotiating with the U.S. Department of Justice regarding the future course of the litigation. It is too early, however, to determine the outcome of those negotiations.

Taxes and Other Revenues. In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523), associations of bottlers challenged the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claimed a taking; the Commonwealth argued a legitimate regulation of abandoned amounts. In March, 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. In August, 1994, the Superior Court ruled that the Commonwealth is liable for certain amounts (plus interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings. In February, 1996, the Commonwealth settled all remaining issues with one group of plaintiffs, the Massachusetts Soft Drink Association. Payments to that group will total approximately $7 million. The Legislature appropriated the funds necessary for these payments in its final supplemental budget for fiscal 1996. Litigation with the other group of plaintiffs, the Massachusetts Wholesalers of Malt Beverages, is still pending. The remaining potential liability is approximately $50 million.

In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total $128 million.

In *State Street Bank and Trust Company v. Commissioner of Revenue* (Appellate Tax Board Nos. F215497, F232152, F233019 and F233948), State Street Bank and Trust Company has raised the same claims as the First National Bank of Boston, outlined above. State Street Bank also claims that it is entitled to alternative apportionment under the bank excise tax. The Department of Revenue estimates that the amount of abatement, including interest, sought by State Street Bank and Trust Company, could total $158 million.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever.

On March 22, 1995, the Supreme Judicial Court issued its opinion in *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657). The court held that certain deductions from the net worth measure of the Massachusetts corporate excise tax violate the Commerce Clause of the United States Constitution. The court remanded the case for entry of a declaration and further proceedings, if necessary, to determine other appropriate remedies. On October 2, 1995, the United States Supreme Court denied the Commonwealth's petition for a writ of certiorari. The Supreme Judicial Court, on April 30, 1996, entered a partial final judgment implementing its decision for tax years ending prior to January 1, 1995. The Department of Revenue estimates that tax revenues in the amount of $40 million to $55 million may be abated as a result of the partial final judgment. On May 13, 1996, the Court entered an order for judgment and memorandum concerning relief for tax years ending on or after January 1, 1996. A final judgment was entered on June 6, 1996. The Department of Revenue is estimating the fiscal impact of that ruling; to date it has paid approximately $15 million in abatements in accordance with the judgment.

Approximately $75 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

Eminent Domain. In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Ted Williams Tunnel/Central Artery project. If the hospital is successful, it could recover the fair market value of its property in addition to its relocation costs with respect to its personal property. It is estimated that the Commonwealth's potential liability is approximately $50 million. The hospital has signed interrogatories indicating that it believes that the property is worth more than $60 million. The case has been tried and is currently under advisement in Superior Court.

Both *Commonwealth of Massachusetts v. Ruggles Center Joint Venture* (Suffolk Superior Court No. 47-1764-A and *Ruggles Center, LLC v. Beacon Construction Corporation* (Suffolk Superior Court No. 96-0637-E) involve an indoor air quality dispute regarding the former headquarters of the Registry of Motor Vehicles at Ruggles Center in Boston. In 1997, the Commonwealth commenced suit against the former building owners, Ruggles Center Joint Venture (RCJV), as well as the general contractor, the architect, the mechanical engineer and the manufacturer of the fireproofing, to recover losses associated with the indoor air quality (IAQ) problems, including the costs of relocating the agency and workers' compensation payments paid to employees. RCJV has filed a counterclaim against the Commonwealth alleging breach of lease, breach of the covenant of good faith and fair dealing and negligence. RCJV claims that it fulfilled all of its obligations under the lease and its amendment and that the Commonwealth wrongfully terminated these agreements, and that the Commonwealth's negligence, or that of its contractors, caused the IAQ problems. RCJV seeks to recover the costs associated with its efforts to remedy the IAQ problems, additional rent payments under the lease, and the value of RCJV's equity in the project had the lease not been terminated. In the second and related case, the building owner has sued the general contractor to recover on the performance bond. Many second, third and fourth parties have been impleaded. The Registry of Motor Vehicles and the Division of Capital Planning and Operations have been named as fourth-party defendants by the manufacturer of the fireproofing, United States Mineral Products Co., Inc., which has asserted a claim for indemnification. Potential liability to the Commonwealth in each case is approximately $25 million.

DiBiase v. Commissioner of Insurance (Suffolk Superior Court No. 96-4241-A) is a putative class action suit in which the plaintiffs seek to invalidate most of Chapter 178A of the Massachusetts General Laws, which is the savings bank life insurance statute. The suit alleges that the statute's conversion of the former savings bank life insurance system established by former Chapter 178 of the Massachusetts General Laws deprived policyholders under the old system of more than $60 million in "surplus" and $11 million in the former General Insurance Guaranty Fund, the proceeds of both of which assertedly belonged to them. The defendants have moved to dismiss on statute of limitations grounds, and the plaintiffs have cross-moved for partial summary judgment on a claim of alleged procedural due process violations. On October 16, 1997, the Court dismissed the case on statute-of-limitations grounds. The plaintiff's appeal period expires on February 17, 1998.

Boston Wharf Co. v. Commonwealth of Massachusetts (Suffolk Superior Court No. 96-0028) is an eminent domain case concerning a parcel on A Street in South Boston which is being used for a tunnel in the Central Artery/Ted Williams Tunnel project. The plaintiffs are claiming $32 million.

Massachusetts Port Authority, Bird Island Ltd. Partnership and Hilton Hotels v. Commonwealth of Massachusetts (Suffolk Superior Court Nos. 96-4803-C, 94-6966, 94-2830-E, 94-2831-F, 94-5745-B, 94-5744-A and 96-6789-E) are eminent domain cases concerning a land acquisition in East Boston for the Central Artery/Ted Williams Tunnel project. The Commonwealth faces a potential liability of approximately $35.7 million.

Thomas Rich v. Commonwealth of Massachusetts (Norfolk Superior Court No. 94-2319) is an eminent domain case concerning property in the city of Quincy. The Commonwealth faces a potential liability of $30 million. The cost of remediation of contaminated soil will also be an issue.

P&P Realty Co., Inc. v. Department of Public Works (Suffolk Superior Court No. 92-2081) is an eminent domain case concerning two parcels at Summer Street and Trilling Way in South Boston. The Commonwealth's potential liability is $22 million.

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

All estimates and assumptions in this Information Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Information Statement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to this Information Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

The Department of the State Auditor audits all agencies, departments and authorities of the Commonwealth at least every two years. Copies of audit reports may be obtained from the State Auditor, State House, Room 229, Boston, Massachusetts 02133.

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617/367-3900, or Catherine Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary of Administration and Finance

February 13, 1998

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KPMG

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Financial Statements

June 30, 1997 and 1996

(With Independent Auditors' Report Thereon)

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KPMG Peat Marwick LLP

1897-1997

99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000

Telefax 617 988 0800

Independent Auditors' Report

The Board of Directors of the
Massachusetts Bay Transportation Authority:

We have audited the accompanying balance sheets of the Massachusetts Bay Transportation Authority (the "Authority"), a component unit of the Commonwealth of Massachusetts, as of June 30, 1997 and 1996, and the related statements of revenue and cost of service and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Massachusetts Bay Transportation Authority as of June 30, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

The historical pension information on pages 19-20 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we will also issue a report on our consideration of the Authority's internal control structure and on its compliance with laws and regulations.

During fiscal year 1997, the Massachusetts Bay Transportation Authority implemented Government Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers.*

KPMG Peat Marwick LLP

October 28, 1997

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 1997 and 1996
(dollars in thousands)

Assets	1997	1996
Transportation property, at cost (notes 2, 7 and 11):		
Transportation property in service	$ 6,300,870	6,068,998
Less accumulated depreciation	1,604,321	1,459,829
	4,696,549	4,609,169
Construction in progress	1,056,959	688,448
	5,753,508	5,297,617
Special funds, consisting of cash and short-term investments (notes 8 and 9):		
Settlement funds	2,869	5,180
Construction funds	6,237	13,171
Other special funds	11,077	6,916
	20,183	25,267
Restricted cash and investments (notes 9 and 11)	247,805	151,518
Deferred charges (note 2)	225,473	234,587
Current assets:		
Cash and temporary cash investments (note 9)	105,603	108,123
Accounts receivable, net:		
Commonwealth of Massachusetts (notes 2 and 3)	232,530	218,133
Other	50,072	38,240
Materials and supplies, at average cost	42,825	40,389
Prepaid expenses	1,056	1,045
	432,086	405,930
Total assets	$ 6,679,055	6,114,919

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Balance Sheets

June 30, 1997 and 1996
(dollars in thousands)

Liabilities and Unreimbursed Cost of Service	1997	1996
Long-term liabilities, less current maturities:		
Bonds payable, net (note 6)	$ 2,945,799	2,654,551
Other noncurrent obligations (note 6)	18,215	19,365
Obligations under capital leases (note 11)	242,472	169,177
Pension liability (note 10)	7,562	-
Total long-term liabilities	3,214,048	2,843,093
Unreimbursed cost of service (note 2)	(190,481)	(203,870)
Grants (notes 2 and 7):		
Federal grants	3,806,918	3,498,038
State and local grants	112,598	111,490
	3,919,516	3,609,528
Less accumulated amortization	988,015	907,949
	2,931,501	2,701,579
Commitments and contingencies (notes 2, 7, 11 and 12)		
Deferred credits (note 8)	40,119	46,423
Current liabilities:		
Current maturities of bonds payable and other noncurrent obligations (note 6)	94,477	84,684
Current capital lease obligations (note 11)	5,334	6,918
Short-term borrowings (note 6)	368,500	415,100
Accounts payable and accrued other	34,795	42,972
Accrued liabilities:		
Payroll and vacation (note 2)	25,947	24,714
Interest	61,937	60,786
Injuries and damage claims, workers' compensation claims and other (notes 2 and 12)	92,878	92,520
	683,868	727,694
Total liabilities and unreimbursed cost of service	$ 6,679,055	6,114,919

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Revenue and Cost of Service

For the years ended June 30, 1997 and 1996
(dollars in thousands)

		1997	1996
Operating revenue, not including local and federal assistance:			
Revenue from transportation	$	199,692	196,934
Other railway operations		21,439	21,185
		221,131	218,119
Operating expenses:			
Wages and related employee benefits:			
Wages		242,550	238,728
Medical and dental insurance (note 12)		50,786	47,925
Pensions (note 10)		35,042	34,446
Social security taxes		21,800	20,654
Workers' compensation (notes 2 and 12)		6,833	7,758
Other		2,570	1,487
Capitalized expenses		(16,540)	(15,928)
		343,041	335,070
Other operating expenses:			
Depreciation and amortization (note 2)		178,901	158,724
Materials, supplies and services		73,300	66,587
Fuel		19,069	18,438
Injuries and damages (notes 2 and 12)		11,115	10,739
Commuter railroad and local subsidy expenses (note 5)		137,210	122,281
Other		3,279	1,214
		422,874	377,983
Total operating expenses		765,915	713,053
Operating loss		(544,784)	(494,934)
Nonoperating income (expense):			
Other income		167	639
Interest expense, net		(151,099)	(145,666)
Other expense		(11,363)	(26,706)
Gain on leveraged leases (note 11)		3,894	12,695
		(158,401)	(159,038)
Cost of service in excess of revenue		(703,185)	(653,972)
Contract assistance from the Commonwealth (note 3)		259,880	239,880
Federal assistance (note 4)		6,315	12,804
Cost of service in excess of revenue and contract assistance (note 2)		(436,990)	(401,288)
Reimbursed net cost of service - statutory basis (note 2)		357,487	324,530
Grant amortization		100,454	84,922
Net decrease in unreimbursed cost of service		20,951	8,164
Beginning of year unreimbursed cost of service		(203,870)	(212,034)
Net pension obligation (note 10)		(7,562)	-
End of year unreimbursed cost of service	$	(190,481)	(203,870)

See accompanying notes to financial statements.

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Statements of Cash Flows

For the years ended June 30, 1997 and 1996
(dollars in thousands)

		1997	1996
Cash flows from operations:			
Cash provided by (used for):			
Cost of service in excess of revenue	$	(703,185)	(653,972)
Charges to cost of service not requiring current expenditure of cash:			
Depreciation and amortization of deferred charges		177,592	157,807
Amortization of bond discount		1,309	917
Decrease (increase) in accounts receivable from the Commonwealth of Massachusetts		(14,397)	71,018
Changes in all other working capital accounts except cash, temporary cash investments and short-term debt		(12,009)	(29,550)
Net cash used for operations		(550,690)	(453,780)
Cash provided for operations and bond payments by:			
Reimbursement of net cost of service and contract assistance		617,367	564,410
Other reimbursements		6,315	8,422
Other		-	968
Cash provided for operations and bond payments		623,682	573,800
Cash flows from capital and related financing activities:			
Cash provided by (used for):			
Additions to transportation property, net		(608,144)	(622,909)
Increase in special funds		(1,346,680)	(2,059,406)
Increase (decrease) in deferred credits		(6,304)	3,729
Principal payments on long-term debt		(86,429)	(75,424)
Payments for capital leases		(9,239)	(3,806)
Payments on short-term borrowings		(415,100)	(452,705)
Net cash used for capital and related financing activities		(2,471,896)	(3,210,521)
Cash provided by:			
Grants from federal and other sources		309,988	237,864
Proceeds from short and long-term borrowings		752,296	797,261
Proceeds from capital leases		78,622	179,928
Decrease in special funds		1,351,765	2,051,063
Cash provided by capital and related financing activities		2,492,671	3,266,116
Change in cash and temporary cash investments		93,767	175,615
Cash and temporary cash investments, beginning of year		259,641	84,026
Cash and temporary cash investments, end of year	$	353,408	259,641
Supplemental disclosure:			
Interest paid	$	168,785	171,017

See accompanying notes to financial statements.

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(1) The Reporting Entity

The Massachusetts Bay Transportation Authority (the "Authority") was created by a legislative act (the "Act") and is a political subdivision of the Commonwealth of Massachusetts (the "Commonwealth"). The Authority finances and operates mass transportation facilities within 78 cities and towns in the Greater Boston metropolitan area and to a limited extent outside this territory.

The Authority is managed by a board of seven directors. The State Secretary of the Executive Office of Transportation and Construction of the Commonwealth is the Chairman. The other six directors are appointed by the Governor of the Commonwealth. The directors have the power to appoint and employ a General Manager, subject to the approval of an advisory board. The Advisory Board consists of one representative from each of the cities and towns constituting the Authority and has certain powers provided by the Act, including the power to approve or limit the Authority's budget.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity* , of the Governmental Accounting Standards Board ("GASB"), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. The Authority's financial statements are incorporated into the financial statements of the Commonwealth as the Authority is a component unit of the Commonwealth.

(2) Summary of Significant Accounting Policies

(a) Unreimbursed Cost of Service

The Act under which the Authority was established provides, among other things, that the Commonwealth shall reimburse the Authority for its Net Cost of Service, as defined. This amount, to the extent it exceeds contract assistance (see note 3), is then assessed by the Commonwealth to the cities and towns in the Greater Boston metropolitan area constituting the Authority.

Cost of Service in Excess of Revenue and Contract Assistance presented in the accompanying Statements of Revenue and Cost of Service differs from the Reimbursed Net Cost of Service because the Authority follows generally accepted accounting principles (GAAP) for financial reporting purposes. For Reimbursed Net Cost of Service purposes, certain expenses are either not assessable, such as depreciation, or, in the instance of certain accrued costs, are not reported until paid by the Authority. The following table reconciles the Authority's Cost of Service in Excess of Revenue and Contract Assistance - GAAP Basis to its Reimbursed Net Cost of Service - Statutory Basis, as reported for the years ended June 30, 1997 and 1996:

(Continued)

(dollars in thousands)

	1997	1996
Cost of service in excess of revenue and contract assistance - GAAP basis	$ (436,990)	(401,288)
Depreciation and amortization	178,901	158,724
Bond principal payments reimbursable by the Commonwealth	(88,564)	(79,424)
Change in other accrued expenses not reimbursable by the Commonwealth until paid by the Authority	(10,834)	(2,542)
Reimbursed net cost of service - statutory basis	$ (357,487)	(324,530)

(b) Change in Year-End

Since 1971, the Authority has operated, and its Net Cost of Service has been assessed by the Commonwealth to the cities and towns, on a calendar-year basis. Legislation enacted in 1980, however, stipulated that, as of July 1, 1983, the Authority's fiscal year be changed from the calendar year to a July 1 - June 30 fiscal year to coincide with the fiscal year of the Commonwealth and its cities and towns. Under other provisions of the Act, the Authority will continue to report its Net Cost of Service to the Commonwealth on a calendar-year basis for reimbursement and assessment purposes.

(c) Transportation Property

Transportation property is stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

(d) Depreciation

Depreciation is provided on the straight-line method at rates that are designed to amortize the original cost of the property over its estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30:

	Estimated Useful Life	1997	1996
Ways and Structure	10-60 years	$ 4,565,540	4,383,654
Equipment	3-25 years	1,536,427	1,489,643
Land	-	198,903	195,701
		$ 6,300,870	6,068,998

(e) Construction in Progress

During 1997, major construction projects aggregating $244,306 were completed and transferred to the appropriate transportation property accounts. Major projects included transit facilities, right of way improvements and extensions and purchases of new rolling stock and other equipment.

(Continued)

(f) Deferred Charges

The Authority defers the cost associated with certain liabilities rather than recording an expense in the period during which such liabilities are incurred. These deferred costs will be charged to expense in the period in which the Commonwealth reimburses the Authority. The items for which costs have been deferred include but are not limited to:

Workers' Compensation

The Authority is entirely self-insured for settlements of workers' compensation claims. Included in accrued liabilities in the accompanying balance sheets is an accrual for claims including an estimate of claims incurred but not paid or reported as of year-end. The Authority includes amounts for workers' compensation in its Statements of Revenue and Cost of Service only to the extent that claims are reimbursed by the Commonwealth. Accordingly, a deferred charge has been established in an amount equal to the outstanding claims liability of approximately $27,600 and $36,300 as of June 30, 1997 and 1996, respectively.

Compensated Absences

The Authority accrues for vested vacation pay when it is earned but recognizes the expense in the Statements of Revenue and Cost of Service in the period that vacation pay is paid to employees and reimbursed by the Commonwealth. The amount of vested vacation pay accrued as of June 30, 1997 and 1996 and included in deferred charges was approximately $13,944 and $17,146, respectively.

Injuries and Damages

An estimated loss for injuries and damages of approximately $39,800 and $38,400 is recorded in the accompanying balance sheets at June 30, 1997 and 1996, respectively, as a liability. The liability represents an estimate of reported claims, and incurred but not reported claims to be paid by the Authority in the future. An equivalent amount has been recorded as a deferred charge rather than as a charge to the Statements of Revenue and Cost of Service since the Authority will be reimbursed by the Commonwealth in the future when such claims are actually paid.

(g) Casualty and Liability Costs

The Authority is engaged in numerous matters of routine litigation which include torts and other claims for injuries and damages. The Authority is self-insured for the first $5,000 in payments on a per accident basis. In September 1996, the Authority renewed its program of excess public liability insurance to provide for $70,000 of layered coverage on a per-accident basis. In the opinion of the General Counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

Other cases and claims include disputes with contractors and others arising out of the Authority's capital construction program. In the opinion of the General Counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

(Continued)

(h) Grants

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization and expansion of transportation facilities and equipment. Amortization of these grants begins when the related facilities and equipment are put into service. The grants are then amortized over the shorter of the estimated useful life of the assets or 40 years. The amortization is reflected as a reduction of the unreimbursed cost of service.

The Authority also receives grants from the Commonwealth and the federal government to fund its operating deficits (see notes 2a and 3).

(i) Statements of Cash Flows

For purposes of the statements of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of six months or less to be temporary cash investments.

(j) Financial Reporting

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989, that do not conflict with or contradict GASB pronouncements. All GASB pronouncements issued after this date will be followed.

(k) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(l) Reclassifications

Certain amounts in the 1996 financial statements have been reclassified to conform to the 1997 presentation.

(3) Contract Assistance from the Commonwealth

The Authority is reimbursed for its Net Cost of Service by the Commonwealth. A portion of this reimbursement is provided specifically in the form of contract assistance for debt service and operating lease payments. The Commonwealth assesses a portion of Net Cost of Service, after reimbursement for debt service and operating lease payments, to the cities and towns constituting the Authority, up to the legislated limit. The amount to be assessed by the Commonwealth for a calendar year to the cities and towns comprising the Authority is limited to 102-1/2% of the amount assessed (including state borrowing charges) in the previous calendar year. Contract assistance from the Commonwealth for fiscal years 1997 and 1996 is summarized as follows:

(Continued)

(a) Debt Service and Operating Lease Assistance

The legislative act authorizing the Authority to issue debt securities provides for contract assistance for the payment of annual debt service costs on bonds issued by the Authority as follows: on bonds issued prior to January 1, 1971, the Authority is eligible for contract assistance on debt service at either 50% or 90%, as provided by contract; on bonds and bond anticipation notes issued after January 1, 1971, the Authority is eligible for contract assistance on debt service at 90%. However, regardless of when the bonds were issued, contract assistance, under the current statute, will not be available on debt service of more than $4,272,208 of bonds outstanding at any one time. Additionally, the Commonwealth pays a maximum of $3,000 annually for debt service relating to Boston Metropolitan District ("BMD") debt. The Authority is also eligible for 90% contract assistance on operating lease payments. The Authority was eligible for contract assistance of $242,514 in fiscal 1997 and $222,667 in fiscal 1996 relating to debt service and operating leases.

(b) Operating Assistance

The Authority's Net Cost of Service reimbursable by the Commonwealth, after deducting debt service and commuter rail operations contract assistance, is $357,487 for fiscal 1997 and $324,530 for fiscal 1996.

Contract assistance for commuter rail service outside the Authority's district is provided by statute each year. Contract assistance for commuter rail service amounted to $14,366 and $14,213 in fiscal years 1997 and 1996, respectively (see note 5).

(4) Federal Operating Assistance

The Surface Transportation Act of 1982 replaced previous assistance programs with a new Section 9 assistance program which provides for both capital and operating grants. Federal operating assistance was $6,315 and $12,804 in 1997 and 1996, respectively.

(5) Commuter Railroad and Local Subsidy

Under General Laws, Chapter 161A, Section 3(f) of the Commonwealth of Massachusetts, the Authority may enter into agreements with private transportation companies, railroads and other concerns providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

On September 1, 1995, the Authority entered into an operating agreement with the National Railroad Passenger Corporation ("AMTRAK") to provide commuter railroad service over the Authority's rail lines. The Authority has agreed to pay AMTRAK a fixed price per year for the services specified in the agreement. The agreement terminates on June 30, 1998 and contains two one-year options for renewal. The Authority must notify AMTRAK in writing no later than nine months prior to the end of the third contract year of its intention to exercise one or more of its option years. The fixed price per option year is also specified in the agreement.

(Continued)

(dollars in thousands)

(6) Short-Term Borrowings and Long-Term Debt

(a) Short-Term Borrowings
Short-term notes payable outstanding at June 30, 1997, mature as follows:

Due Date	Interest Rate	Principal Amount
September 5, 1997	4.75%	$ 160,000
February 27, 1998	4.25%	165,000
		$ 325,000

The Authority issues commercial paper from time to time to act as temporary financing for capital expenditures. As of June 30, 1997, there was $43,500 of commercial paper outstanding. There was $90,100 of commercial paper outstanding at June 30, 1996.

On September 4, 1997, the Authority issued $160,000 of notes carrying an interest rate of 4.50%. The notes mature on September 5, 1998 and will be used by the Authority to finance its current operations.

(b) Bonds
General Transportation System Bonds issued under General Laws, Chapter 161A, Section 23 of the Commonwealth of Massachusetts, are all payable in annual installments on March 1; interest is payable semi-annually on March 1st and September 1st. The bonds were issued to provide funds for the financing of the Authority's plant and equipment improvement program.

Boston Metropolitan District Bonds ("BMD") were issued for transit purposes prior to the formation of the Massachusetts Bay Transportation Authority in 1964. For all BMD issues, bond principal payments in excess of amounts reimbursed by the Commonwealth are refinanced. Bonds outstanding are as follows:

Description	Year of Maturity	Average Interest Rate		June 30, 1997	June 30, 1996
General Transportation System Bonds:					
1967 Series A Bonds dated March 1, 1967	2007	3.84%	$	26,000	28,600
1972 Series A Bonds dated Sept. 1, 1972	2012	5.25		12,900	13,760
1974 Series A Bonds dated June 1, 1974	2014	6.13		30,000	31,800
1977 Series A Bonds dated Sept. 1, 1977	2017	5.53		33,550	35,910
1984 Series A Variable Interest Rate Bonds dated November 1, 1984	2014	3.73		71,280	73,440
1986 Series A Refunding Bonds dated April 15, 1986	2005	7.05		23,285	34,785
1987 Series A Bonds dated March 1, 1987	2017	5.76		10,580	11,660
1987 Series B Refunding Bonds dated March 1, 1987	2006	5.78		17,635	18,455

(Continued)

Notes to Financial Statements
(dollars in thousands)

Description	Year of Maturity	Average Interest Rate	June 30, 1997	June 30, 1996
1987 Series C Bonds dated July 15, 1987	2012	7.00	1,510	2,920
1988 Series A Bonds dated March 15, 1988	2013	7.30	6,540	9,505
1989 Series A Bonds dated May 15, 1989	2014	6.77	15,305	19,775
1990 Series A Bonds dated April 1, 1990	2015	7.12	22,865	27,675
1990 Series B Bonds dated December 1, 1990	2021	7.53	14,860	17,960
1991 Series A Bonds dated November 15, 1991	2021	6.84	98,945	102,925
1992 Series A Bonds dated October 1, 1992	2022	5.77	74,815	76,175
1992 Series B Refunding Bonds dated December 1, 1992	2021	5.93	370,850	374,525
1992 Series C Bonds dated November 15, 1992	2023	6.01	127,225	129,475
1993 Series A Refunding Bonds dated June 1, 1993	2022	5.29	494,810	504,110
1994 Series A Refunding Bonds dated June 1, 1994	2019	6.05	334,740	337,550
1994 Series B Bonds dated June 1, 1994	2024	5.73	187,910	190,955
1995 Series A Bonds dated April 1. 1995	2025	5.68	280,370	285,305
1995 Series B Bonds dated September 15, 1995	2025	5.19	193,740	196,940
1996 Series A Bonds dated March 1, 1996	2026	5.37	197,035	200,000
1996 Series B Bonds dated October 1, 1996	2026	5.22	197,065	-
1997 Series A Bonds dated June 1, 1997	2027	5.10	200,000	-
Total General Transportation System bonds payable			3,043,815	2,727,335
Boston Metropolitan District Bonds:				
Boston Elevated Railway Company and Metropolitan Transit Authority Debt	2021	6.15	23,119	24,483
Purchase of City of Boston Transit Properties	2025	5.39	10,805	11,563
Construction Bonds	2002	4.56	3,450	4,025
Construction Bonds	2008	7.08	4,425	4,635
			7,875	8,660
Total Boston Metropolitan District bonds payable			41,799	44,706
Total bonds payable			3,085,614	2,772,041
Less: current maturities of bonds payable			93,327	83,534
Total long-term bonds payable			2,992,287	2,688,507
Less: unamortized discount			46,488	33,956
Total long-term bonds payable, net			$ 2,945,799	2,654,551

(Continued)

(dollars in thousands)

Approximate annual maturities of long-term bonds payable as of June 30, 1997 are as follows:

1998	$ 93,327
1999	97,134
2000	101,072
2001	104,986
2002	106,849
Thereafter	2,582,246
Total	$ 3,085,614

In prior years, the Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1997, $1,169,430 of these bonds are considered defeased in-substance.

On August 1, 1997, the Authority issued $269,200 in General Transportation System Bonds carrying an average interest rate of 5.33%. A portion of the proceeds in the amount of $258,435 matures in 2024 and will be used to refund the following bonds on a current and advance refunding basis: 1972 Series A, 1986 Refunding, 1987 Series A, 1992 Series A, 1992 Series C and 1994 Series B. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds.

The refunding resulted in a difference between the acquisition price and the net carrying amount of the old refunded debt of $22,734. The total difference in cash flows between the refunded bonds and the new bonds is approximately $7,018, and the economic gain resulting from the refunding approximated $7,150.

The Act under which the Authority was established provides that, if at any time any principal or interest is due on any bond or note issued or assumed by the Authority and funds to pay the same are not available, the Commonwealth shall thereupon remit to the Authority the amount required to meet such obligations.

(c) Certificates of Participation

The Authority issued Certificates of Participation ("COPs") of $28,565 on December 15, 1988 and $85,795 on August 30, 1990. For purposes of reporting under generally accepted accounting principles, they have been classified as "Other noncurrent obligations" in the accompanying balance sheets, for $18,215 and $19,365 at June 30, 1997 and 1996, respectively. Under the terms of the agreement covering the COPs, the Authority's obligation to make annual payments on the COPs is subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget. If appropriated, the future debt service payments on the COPs would be 90% reimbursable.

(Continued)

(dollars in thousands)

$10,765 of the August 1, 1997 General Transportation System Bond issue will be used to advance refund $9,075 of outstanding COPs. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded COPs.

The refunding resulted in a difference between the acquisition price and the net carrying amount of the old refunded debt of approximately $1,753. The total difference in cash flows between the COPs and the new bond is approximately $2,355, and the economic gain resulting from the refunding approximated $752.

On April 15, 1995, the Authority issued $288,110 in General Transportation System Bonds. A portion of the proceeds in the amount of $87,729 was used to advance refund $79,635 of outstanding COPs. These proceeds were used to purchase United States government securities and were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded COPs. As a result, the refunded COPs are considered to be defeased in-substance and the liability has been removed from the accompanying financial statements.

The refunding resulted in a total loss on extinguishment of COPs of approximately $5,287, the difference between the fair value of the old COPs and the refunding debt. The unamortized loss is included in deferred charges. The total difference in cash flows between the COPs and the new bond is approximately $4,302, and the economic gain resulting from the refunding approximated $5,799.

The remaining COPs outstanding bear interest at rates ranging from 7.3% to 7.8% and mature as follows:

1998	$ 1,150
1999	1,150
2000	1,150
2001	1,150
2002	1,140
Thereafter	13,625
	19,365
Less: Current maturities	1,150
Total long-term COPs payable	$ 18,215

(Continued)

(dollars in thousands)

(7) Capital Improvement Program

The Authority's continuing program for mass transportation development has projects in service and in various stages of approval, planning and implementation. The following table shows, as of June 30, 1997, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

Funding Source	Approved Project Costs	Expenditures through June 30, 1997	Unexpended Costs
Federal Grants	$ 2,984,019	2,816,691	167,328
State and Local Sources	447,105	365,114	81,991
Authority Bonds	3,874,516	3,059,454	815,062
Total	$ 7,305,640	6,241,259	1,064,381

The Authority is presently authorized by law to issue bonds for capital purposes other than refunding, to an amount not exceeding $3,556,300 outstanding at any time, provided, however, that any bonds that mature or are redeemed on or after January 1, 1993, may not be reissued. Such bonds outstanding as of June 30, 1997, amount to $2,700,810. In addition, the Authority is authorized to issue an additional $1,511,830 for certain specified purposes, for which none are outstanding.

The terms of the federal grant contracts require the Authority to utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Urban Mass Transportation Act of 1964, as amended. Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Department of Transportation. In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

The Authority has entered into several long-term contracts to purchase commuter rail coaches, locomotives and rapid transit cars. Unpaid amounts under these contracts total approximately $228,491 at June 30, 1997.

(8) Deferred Credits

Settlement funds on the accompanying balance sheets represent proceeds plus interest related to a previous litigation settlement. These funds have been recorded as a deferred credit in the accompanying balance sheets and will be used to pay for certain legal costs incurred pursuant to the settlement as well as to make additional capital improvements to the Authority's rail lines or to make lease payments on certain light rail vehicles. Interest earned on the settlement funds is also recorded as a deferred credit in the period during which it is earned.

(Continued)

(dollars in thousands)

(9) Deposits and Investments

The Authority is authorized by its Board of Directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, brokers' acceptances, and repurchase agreements secured by U.S. government and agency obligations. These investments are recorded at amortized cost, which approximates market, and earn interest and dividends at prevailing rates.

Unrestricted deposits and investments consisted of the following amounts presented in the accompanying balance sheets at June 30:

	1997	1996
Settlement funds	$ 2,869	5,180
Construction funds	6,237	13,171
Other special funds	11,077	6,916
Cash and temporary cash investments	105,603	108,123
Total	$ 125,786	133,390

(a) Deposits

The Authority's deposits are categorized as those that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name (Category 1), those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name (Category 2), and those deposits that are not collateralized (Category 3). Managed investment pools are not categorized. A summary of these deposits as of June 30, 1997 is as follows:

	Category 1	Category 2	Category 3	Total Bank Balance	Carrying Amount
Cash and cash equivalents	$ 635	-	36,239	36,874	48,199
Not categorized:					
Mass Municipal Depository Trust	-	-	-	17,064	17,064
Total	$ 635	-	36,239	53,938	65,263

Outstanding checks largely account for the difference between the balance and carrying amount of deposits. The Authority's maximum amount of uninsured deposits was approximately $151,946 during fiscal 1997 due to the timing of cash receipts.

(Continued)

(dollars in thousands)

(b) Investments

The Authority's investments are categorized according to the level of risk assumed by the Authority. Category 1 includes investments that are insured, registered or held by a trustee in the Authority's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Authority's name. Category 3 includes uninsured or unregistered investments held by the counterparty, its trust department or agent but not in the Authority's name. A summary of these investments as of June 30, 1997 is as follows:

	Category 1	Category 2	Category 3	Total Carrying Amount	Estimated Market Value
U.S. government obligations	$ 635	-	-	635	1,706
Commercial paper	-	29,888	-	29,888	29,913
Repurchase agreements	-	-	25,000	25,000	25,032
Certificates of deposit	-	-	5,000	5,000	5,000
Total	$ 635	29,888	30,000	60,523	61,651

The maximum amount of the Authority's investment in commercial paper and repurchase agreements was approximately $96,000 at August 5, 1996. This amount varies during the year due to the timing of cash receipts. U.S. government and agency obligations that secure the repurchase agreements are held by the broker's agent in a safe-keeping account on behalf of the Authority, but such obligations do not bear the Authority's name.

(c) Restricted Cash and Investments

The Authority's restricted cash and investments are categorized according to the level of risk assumed by the Authority. Category 1 includes those deposits that are fully insured or collateralized with securities held by the Authority or its agent in the Authority's name, Category 2 includes those deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name, and Category 3 which includes those deposits that are not collateralized. A summary of these deposits as of June 30, 1997 is as follows:

	Category 1	Category 2	Category 3	Total Carrying Amount
Cash and cash equivalents	$ 138,711	-	65,938	204,649
Municipal bond obligations	-	21,884	-	21,884
U.S. government obligations	21,272	-	-	21,272
Total	$ 159,983	21,884	65,938	247,805

The amounts are restricted to pay the obligations under capital leases.

(Continued)

(dollars in thousands)

(10) Retirement Plans

The Authority provides retirement benefits to employees through three defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan covers all employees except the MBTA police, who are covered separately, and those executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan provide retirement, disability and death benefits. Both plans issue a publicly available financial report that includes financial statements and required supplementary information for that plan. The MBTA Retirement Plan report may be obtained by writing to 99 Summer Street, Suite 1700, Boston, MA 02110, or by calling (617)222-5266. The MBTA Police Association Plan may be obtained by writing to P.O. Box 6807, Boston, MA 02102 or by calling 1-800-281-0063.

The MBTA Deferred Compensation Plan provides supplemental pension benefits for certain executive and Local 453 employees after retirement, which is represented by a collective bargaining unit, Local 453. Employees may participate in both the MBTA Retirement Plan and the MBTA deferred compensation plan.

Funding Policy and Annual Pension Cost. The Board of Trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members to contribute 4% with the Authority currently paying an amount equal to approximately 12.03% of total payroll of the members. The contribution requirements for the Police Association Plan was determined in accordance with actuarial valuations. Deferred Compensation contributions are made on a "pay-as-you-go" basis. Contributions made to the Plans in 1997 were in accordance with the contribution requirement. The Authority's annual pension cost for the current year and related information for each plan is as follows:

	MBTA Retirement Plan	MBTA Police Association Plan	MBTA Deferred Compensation Plan
Annual pension cost	$41,436	$782	$2,621
Contributions made - (Authority and members)	$41,436	$782	$2,946
Actuarial valuation date	12/31/96	12/31/96	7/1/96
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	level dollar	level dollar	level dollar
Amortization period remaining	39 years	18 years	39 years
Asset valuation method	5 year moving average	market value	none
Actuarial assumptions:			
Interest rate	7.25%	7%	8%
Projected salary increases	5%	5.5%	5%

(Continued)

(dollars in thousands)

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
MBTA Retirement Plan				
	12/31/94	$ 44,454	100%	-
	12/31/95	40,414	100%	-
	12/31/96	41,436	100%	-
MBTA Police Association Plan				
	12/31/96	$ 782	100%	-
MBTA Deferred Compensation Plan				
	1/1/93	$ 3,123	73%	$ 8,193
	7/1/96	2,621	112%	7,888

The Authority's net pension obligation for the Deferred Compensation Plan at June 30, 1997 is $7,562.

The MBTA Deferred Compensation Savings Plan

The Authority provides a defined contribution retirement plan for nonunion management not participating in the MBTA Retirement Plan. The Plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The Plan has approximately 230 members at June 30, 1997, and the cost of the Plan to the Authority was $626 for fiscal year 1997. Member contributions vest to Plan members immediately, while contributions made by the Authority vest to Plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

Other Post-Employment Benefits

The Authority pays 100% of health insurance to retired employees eligible under the Deferred Compensation Savings Plan, MBTA Retirement Plan and MBTA Policeman Association Plan. These benefits are expensed on a current (pay-as-you-go) basis. There are approximately 4,000 retired employees eligible to receive post-retirement benefits at June 30, 1997. The cost of these benefits was approximately $22,229 in fiscal 1997 and approximately $22,200 in fiscal 1996.

(Continued)

(11) Lease Obligations

(a) Lease-in/Lease-out

In fiscal 1996, the Authority entered into two lease/sublease arrangements (collectively "Agreement I"), with Fleet Bank for a total of 40 heavy rail and 27 commuter rail cars. The Agreement I provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period of approximately 18 years commencing April 1996. At the time of the transaction, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the terms of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase of the Head Lease Rights option. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately $88,359. Because this transaction does not meet the criteria for an "in-substance defeasance," the funds on deposit, United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements.

In fiscal 1997, the Authority entered into four lease/sublease arrangements (collectively "Agreement II"), with Fleet Bank for a total of 50 heavy rail and 64 commuter rail cars. Agreement II provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period of approximately 14 years commencing January 1997. At the time of the transaction, the Authority deposited funds with a financial institution sufficient to meet all of its payment obligations under the term of the lease and acquired United States Treasury Strips which would mature to an amount sufficient to satisfy each agreement's purchase of the Head Lease Rights option. The fair value of equipment under lease is approximately $77,345. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately $71,621. Because this transaction does not meet the criteria for an "in-substance" defeasance, the funds on deposit, United States Treasury Strips, and the related lease liability have been included in the accompanying financial statements. The Authority has recorded a gain on this lease-in/lease-out transaction of approximately $3,894, net of transaction costs, as of June 30, 1997.

In fiscal 1998, the Authority entered into five lease/sublease arrangements (collectively "Agreement III"), with Fleet Bank for a total of 66 heavy rail and 8 commuter rail cars. Agreement III provides for the lease of the equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for a period ranging from approximately 10 to 16 years commencing August 1997. The fair value of equipment under lease is approximately $120,711. The present value of the remaining rents and the purchase of the Head Lease Rights option is approximately $90,864.

(b) Cross Border Leases

In fiscal 1996, the Authority entered into two cross-border leases for a total of 150 buses with JL Charles Lease Co., LTD., a corporation formed under the laws of Japan. The leases provide for the Authority to sell and lease back the buses over a period of eight years. There is a bargain purchase option at the end of the lease term. The present value of the minimum lease payments approximates $31,958 at June 30, 1997. At the time of the transaction, the Authority deposited a portion of the funds with a financial institution sufficient to meet a

(Continued)

(dollars in thousands)

portion of its payment obligations under the terms of the lease. Because the transaction does not meet the criteria for an "in-substance defeasance," these funds on deposit and the related lease liability have been included in the accompanying financial statements. The Authority recorded a gain on the sale of assets in fiscal 1996 of approximately $2,500 which is included as gain on leveraged leases in the accompanying financial statements.

The Authority also has a cross border lease agreement with ABB Credit Finans AB of Sweden for 40 heavy rail cars. The agreement provided for the Authority to lease the heavy rail cars for a period of 15 years commencing December 1994 with an option to extend the lease for another five years. The agreement allows the Authority to purchase these cars at the end of the lease for a specified amount. The remaining rental payments and fair option purchase price have a net present value of approximately $55,865 at June 30, 1997. The Authority has made investment arrangements to meet all of its payment obligations throughout the term of the lease. Because the transaction does not meet the criteria for an "in-substance defeasance," the funds on deposit and the related lease liability has been included in the accompanying financial statements.

Transportation property under capital leases is summarized as follows and is included in transportation property in service (see note 2(d)) at June 30, 1997:

Rail cars	$ 228,743
Buses	34,428
Less accumulated depreciation	(14,934)
Net transportation property in service under capital lease	$ 248,237

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of net minimum lease payments as of June 30, 1997:

Fiscal Year	
1998	$ 24,096
1999	23,071
2000	23,522
2001	23,887
2002	24,187
Thereafter	591,692
	710,455
Less amount representing interest	462,650
Present value of net minimum lease payments	$ 247,805

(Continued)

(dollars in thousands)

(c) Operating Leases

The Authority has entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases mature through 2013. At the end of the lease terms, the Authority may purchase the vehicles at prices equal to the lesser of a stated percentage (40% - 70%) of the lessors' original purchase price or residual fair market value, as defined.

The leases have been accounted for as operating leases. Future minimum lease payments, all of which are eligible for 90% reimbursement through state contract assistance, are as follows:

Fiscal Year	
1998	$ 13,669
1999	12,523
2000	12,909
2001	13,221
2002	13,279
Thereafter	136,807
	$ 202,408

(12) Risk Management

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed $100 per incident. The Authority is self-insured for workers' compensation, unemployment claims, vehicle damage and loss and health insurance. The Authority pays 85% of all health premiums up to a maximum of $200 per individual per illness. Stop loss insurance is carried on health insurance claims in excess of $200 per individual per illness. Some employees elect to participate in managed health care programs. Under these plans the Authority is responsible for premium payments only. The Authority contributes 85% of managed health care premium costs.

The Authority self funds a $5,000 per occurrence deductible for general liability.

During fiscal 1997 and 1996, expenditures for claims and judgments, excluding workers' compensation and health and life, were $11,115 and $10,739, respectively. Expenditures for claims related to workers' compensation were $6,833 and $7,758 and expenditures for the self-insured health plans were $48,559 and $51,377, respectively.

(Continued)

(dollars in thousands)

GASB Statement No. 10 requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities as accrued expenses as of June 30, 1997 and 1996. Changes in the self-insurance reserves in fiscal 1997 and 1996 were as follows:

	1997	1996
Liability, beginning of year	$ 75,720	67,109
Provisions for claims	59,072	78,485
Payments	(66,507)	(69,874)
Liability, end of year	$ 68,285	75,720

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedules of Funding Progress

(Unaudited)
(dollars in thousands)

Year Ended June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Covered Payroll ((b-a)/c)
MBTA Retirement Plan						
1990	$ 781,492	$ 864,820	$ 83,328	90.36%	$ 275,224	30.28%
1991	849,578	1,010,989	161,411	84.03	250,820	64.35
1992	900,412	1,069,181	168,769	84.22	273,441	61.72
1993	954,571	1,089,321	134,750	87.63	276,712	48.70
1994	983,556	1,150,035	166,479	85.52	259,938	64.05
1995	1,050,103	1,198,745	148,642	87.60	261,953	56.74
1996	1,138,225	1,237,705	99,480	91.96	257,141	38.69

Deferred Compensation Plan

The Deferred Compensation Plan is not funded and management does not currently intend to fund the plan in the future other than to make benefit payments as they come due. As a result, the normal Schedule of Funding Progress would show no provision having been made for the cost of this plan.

In the table below, Column (b) which normally would have contained the Plan's assets, contains instead the Net Pension Obligation (amounts previously charged against operations but not yet contributed to the Plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

Valuation Date	Actuarial Accrued Liability (a)	Net Pension Obligation (b)	Unrecognized Actuarial Accrued Liability (c) (a)-(b)	Recognized Ratio (d) (b)/(a)	Unrecognized Ratio (e) (c)/(a)	Covered Payroll (f)
07/01/96	$30,234	$7,887	$22,347	26.1%	73.9%	$27,779

Information about the unrecognized actuarial accrued liability for this plan for other years in currently not available.

(Continued)

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

Required Supplementary Information
Schedules of Funding Progress

(Unaudited)
(dollars in thousands)

Police Association Retirement Plan

Valuation Date	Actuarial Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Actuarial Accrued Liability (c) (b-a)	Funded Ratio (d) (b/a)	Covered Payroll (e)	UAAL as a Percentage of Covered Payroll ((a-b)/e)
12/31/96	$17,851	$17,730	$121	99.3%	$7,517	16.1%

Information about the unrecognized actuarial accrued liability for this plan for other years in currently not available.

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon settlement of the issue, Bond Counsel proposes to deliver to the successful bidder or bidders an opinion in substantially the following form:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Telephone: 202/434-7300
Fax: 202/434-7400

Telephone: 617/542-6000
Fax: 617/542-2241

[To the Purchasers]

Re: $165,000,000 Massachusetts Bay Transportation Authority (the "Authority") 1998 Series A Notes dated February 27, 1998 and payable February 26, 1999 (the "Notes").

We have acted as bond counsel in connection with the issuance by the Authority of the Notes pursuant to Chapter 161A of the Massachusetts General Laws (the "Act"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Notes are being issued by means of a book-entry-only system, with note certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), with no certificates available for distribution to the public and with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

The Notes are not subject to redemption prior to maturity.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Authority is duly created and validly existing as a body politic and corporate and a political subdivision of The Commonwealth of Massachusetts (the "Commonwealth") with the corporate power to issue the Notes.

2. The Notes have been duly authorized, executed and delivered by the Authority and are valid and binding general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of and interest on the Notes.

3. The Authority is subject to suit, but its property is not generally subject to attachment or levy to pay a judgment on the Notes. Provision is made, however, in Section 13 of the Act for court-ordered payment of unpaid Notes from moneys received for the purpose by the Authority from the Commonwealth.

4. The Commonwealth is required by Section 13 of the Act to pay to the Authority amounts duly

certified by its directors as necessary to pay the principal of and interest on the Notes if sufficient funds are not otherwise available, and the directors of the Authority are required to make such certification to the Treasurer and Receiver-General of the Commonwealth. The obligation of the Commonwealth to pay such amounts to the Authority is a general obligation of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to make such payments. Specific provision is made for legal proceedings by the Authority or any Noteholder against the Commonwealth to enforce collection of any amounts so certified. Payment of a judgment so obtained may be subject to legislative appropriation of the necessary funds, and the property of the Commonwealth is not subject to attachment or levy to pay any such judgment.

5. Under existing law, interest on the Notes and any profit made on the sale thereof are exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Notes.

6. Interest on the Notes will not be included in the gross income of the holders of the Notes for federal income tax purposes. This opinion is rendered subject to compliance with various requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Notes in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Notes to be included in the gross income of holders of the Notes retroactive to the date of issuance of the Notes. While interest on the Notes will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Notes will be included in the "adjusted current earnings" of corporate holders of the Notes and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Notes.

It is to be understood that the rights of the holders of the Notes, including the rights against the Commonwealth described above, and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

KROKIDAS & BLUESTEIN
ATTORNEYS
141 TREMONT STREET
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OF COUNSEL

APPENDIX D

PROPOSED FORM OF OPINION OF CO-BOND COUNSEL

Upon settlement of the issue, Co-Bond Counsel proposes to deliver to the successful bidder or bidders an opinion in substantially the following form:

[to the Purchasers]

Re: $165,000,000 Massachusetts Bay Transportation Authority (the "Authority") 1998 Series A Notes dated February 27, 1998 and payable February 26, 1999 (the "Notes").

We have acted as co-bond counsel in connection with the issuance by the Authority of the Notes pursuant to Chapter 161A of the Massachusetts General Laws (the "Act"). We have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Notes are being issued by means of a book-entry-only system, with note certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), with no certificates available for distribution to the public and with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

The Notes are not subject to redemption prior to maturity.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Authority is duly created and validly existing as a body politic and corporate and a political subdivision of The Commonwealth of Massachusetts (the "Commonwealth") with the corporate power to issue the Notes.

2. The Notes have been duly authorized, executed and delivered by the Authority and are valid and binding general obligations of the Authority, and the full faith and credit of the Authority are pledged to the payment of the principal of and interest on the Notes.

3. The Authority is subject to suit, but its property generally is not subject to attachment or levy to pay a judgment on the Notes. Provision is made, however, in Section 13 of the Act for court-ordered payment of unpaid Notes from moneys received for the purpose by the Authority from the Commonwealth.

4. The Commonwealth is required by Section 13 of the Act to pay to the Authority amounts duly certified by its directors as necessary to pay the principal of and interest on the Notes if sufficient funds are not otherwise available, and the directors of the Authority are required to make such certification to the Treasurer and Receiver-General of the Commonwealth. The obligation of the Commonwealth to pay such amounts to the Authority is a general obligation of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to make such payments. Specific provision is made for legal proceedings by the Authority or any Noteholder against the Commonwealth to enforce collection of any amounts so certified. Payment of a judgment so obtained may be subject to legislative appropriation of the necessary funds, and the property of the Commonwealth is not subject to attachment or levy to pay any such judgment.

It is to be understood that the rights of the holders of the Notes, including the rights against the Commonwealth described above, and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

Krokidas & Bluestein

OFFICIAL NOTICE OF SALE
$165,000,000
MASSACHUSETTS BAY TRANSPORTATION AUTHORITY
1998 SERIES A NOTES

SEALED PROPOSALS will be received by the Massachusetts Bay Transportation Authority (the "Authority") at the office of its Treasurer-Controller at 10 Park Plaza, 8th Floor, Room 8450, Boston, Massachusetts 02116 until 11:00 a.m. (Boston time) on Tuesday, February 24, 1998, at which time and place all such proposals will be publicly opened and read, for the purchase of all, or a part, of the following notes (the "Notes") of the Authority:

$165,000,000 Massachusetts Bay Transportation Authority
1998 Series A Notes dated February 27, 1998 and due February 26, 1999.

The Notes will constitute direct and general obligations of the Authority, and the full faith and credit of the Authority will be pledged to the payment of the principal of and interest on the Notes.

Details of the Notes -- The Notes will be dated February 27, 1998 and will be due and payable on February 26, 1999. The Notes will be non-redeemable prior to maturity and will bear interest, calculated on the basis of the actual number of days and a 365-day year (364/365), at such rate per annum as specified by the Authority on the day prior to accepting bids (see "Interest Rate and Basis of Award" below). The Notes will be issued by means of a book-entry only system with no physical distribution of Notes made to the public. The Notes will be issued to The Depository Trust Company, New York, New York ("DTC"), and immobilized in their custody. A book-entry only system will be employed, evidencing ownership of the Notes in principal amounts of $5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. The successful bidder or bidders, as a condition to delivery of the Notes, shall be required to deposit the Notes with DTC, registered in the name of Cede & Co. So long as DTC or its nominee, Cede & Co., is the registered owner of the Notes, principal and interest on the Notes will be paid, in immediately available funds, directly to DTC or such nominee as registered owner of the Notes. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The Authority will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Interest Rate and Basis of Award -- Proposals to purchase the Notes may be for all or part of the offering. No proposal for less than $5,000,000 principal amount of the Notes will be considered, and all proposals must be in integral multiples of $5,000,000. No "all or none" bids will be accepted. In addition to the amount bid for the Notes, the purchasers must pay accrued interest (if any) to the date of delivery. The Authority will specify the interest rate per annum that the Notes will bear. Notice of such interest rate will be given by Thomson Municipal News on or about 11:00 a.m. (Boston time), Monday, February 23, 1997 and may be obtained by any bidder from the office of the Treasurer-Controller of the Authority after 11:00 a.m. on such date by calling Wesley G. Wallace, Jr., Treasurer-Controller (617/222-3216). Bidders shall specify the amount of premium, if any, that they will pay, in addition to the par value, to purchase the Notes. No proposal to purchase the Notes at less than par will be accepted. Bidders may submit more than one proposal to purchase the Notes, subject to the provisions noted above. The Notes will be awarded to the bidder or bidders offering to purchase the Notes at the lowest interest cost, such cost under each proposal to be determined by computing the total amount of interest payable on the Notes, at the rate specified by the Authority on the day prior to accepting bids, and deducting therefrom the premium, if any, offered in such proposal. If this procedure produces a tie, the Notes will be awarded and sold to the bidders on a ratable apportionment between or among such bidders. The Authority reserves the right to award all or any part of the Notes and to award Notes to any bidder in an amount less than the principal amount of Notes bid for in any proposal, in which event any premium bid shall be proportionately reduced. The further right is reserved to reject any or all proposals and, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

The Authority has not contracted for the issuance of any credit enhancement for the Notes. If the Notes qualify for any credit enhancement, any purchase of such credit enhancement shall be at the sole option and expense of the bidder and any increased costs of issuance or delivery of the Notes resulting by reason of such credit enhancement shall be assumed by such bidder. Proposals shall not be conditioned upon the issuance of any such credit enhancement. Any failure of the Notes to be enhanced or of any such credit enhancement to be issued shall not in any way relieve the successful bidder of its contractual obligations arising from the acceptance of its proposal for the purchase of the Notes.

Proposals may not include any conditions not otherwise expressly provided for herein.

Form of Bid -- Each proposal must be submitted on an Official Bid Form without alteration or change and must be enclosed in a sealed envelope and addressed to Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, Office of the Treasurer-Controller, 10 Park Plaza, 8th Floor, Room 8450, Boston, Massachusetts 02116 and marked on the outside in substance "Proposal for Notes." No bids will be accepted after 11:00 a.m. (Boston time) on Tuesday, February 24, 1998. The 11:00 a.m. deadline on receipt of bids will be strictly enforced. Bids will be accepted or rejected promptly after opening and not later than 5:00 p.m. on February 24, 1998.

No good faith deposit is required for proposals to purchase the Notes.

Copies of Official Statement -- After the award of the Notes, the Authority will make available copies of the Official Statement referred to below in reasonable quantity as requested by the successful bidder or bidders and will include therein such additional information concerning the reoffering of the Notes as they may request. The Authority expects the successful bidder or bidders to deliver copies of such Official Statement to persons to whom such bidder or bidders initially sell the Notes. The successful bidder or bidders will be required to acknowledge receipt of such Official Statement and to acknowledge that the Authority expects the successful bidder or bidders to deliver copies thereof to persons to whom such bidder or bidders initially sell the Notes, and will be responsible to the Authority and its officials in all respects for the accuracy and completeness of information provided by them with respect to such reoffering.

Continuing Disclosure -- To assist bidders in complying with paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12"), the Authority will undertake to provide notices of certain events. A description of this undertaking is set forth under the heading "Continuing Disclosure" in the Preliminary Official Statement and also will be set forth in the final Official Statement.

Documents to be Delivered at Closing -- It shall be a condition to the obligation of the successful bidder or bidders to accept delivery of and pay for the Notes that, contemporaneously with or before accepting the Notes and paying thereof, they shall be furnished, without cost, with (a) the approving opinion of the firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel to the Authority, as to the validity and the tax exempt status of the Notes (reference is made to Appendix C of the Preliminary Official Statement dated February 17, 1998 as to the form of such opinion); (b) the approving opinion of the firm of Krokidas & Bluestein, Boston, Massachusetts, Co-Bond Counsel to the Authority, as to the validity of the Notes (reference is made to Appendix D of the Preliminary Official Statement dated February 17, 1998 as to the form of such opinion); (c) a certificate of the General Counsel of the Authority dated as of the date of delivery of the Notes to the effect that there is no litigation pending or, to the best of his knowledge, threatened affecting the validity of or security of the Notes; (d) a copy of the Official Statement relating to the Notes for each successful bidder or syndicate of bidders, which Official Statement shall be dated as of the date of the sale of the Notes and shall be substantially in the form of the Preliminary Official Statement referred to below with such changes as the Authority deems necessary or appropriate; (e) a certificate of the General Manager and Treasurer-Controller of the Authority to the effect that, to the best of their knowledge and belief, the Preliminary Official Statement referred to below as of the date of sale and the Official Statement as of the date of sale and as of the date of the delivery of the Notes do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; (f) a certificate of the Treasurer and Receiver-General

and Secretary of Administration and Finance of the Commonwealth of Massachusetts to the effect that to the best of their knowledge and belief the information pertaining to the Commonwealth of Massachusetts contained in Appendix A, "The Commonwealth of Massachusetts Information Statement"(the "Information Statement") of the Preliminary Official Statement as of the date of sale and the Official Statement as of the date of sale and as of the date of delivery of the Notes does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading; (g) an opinion from the firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., addressed to the successful bidder or bidders for the Notes, to the effect that, (i) although they are not passing upon and do not assume any responsibility for the accuracy or adequacy of the statements contained in the Preliminary Official Statement referred to below and the Official Statement and make no representation that they have independently verified the same, on the basis of their participation in the preparation of the Preliminary Official Statement and the Official Statement and in connection with the rendering of their opinion as to the validity of the Notes, no facts came to their attention which would cause them to conclude that the Preliminary Official Statement as of the date of sale or the Official Statement as of the date of sale and as of the date of delivery of the Notes contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading and (ii) the continuing disclosure undertaking constitutes a valid and binding obligation of the Authority; (h) an opinion from the firm of Krokidas & Bluestein, addressed to the successful bidder or bidders for the Notes, to the effect that, although they are not passing upon and do not assume any responsibility for the accuracy or adequacy of the statements contained in the Preliminary Official Statement referred to below and the Official Statement and make no representation that they have independently verified the same, on the basis of their participation in the preparation of the Preliminary Official Statement and the Official Statement, no facts came to their attention which would cause them to conclude that the Preliminary Official Statement as of the date of sale or the Official Statement as of the date of sale and as of the date of delivery of the Notes contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; (i) an opinion from the firm of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. Boston, Massachusetts, as Disclosure Counsel to the Commonwealth of Massachusetts, addressed to the successful bidder or bidders for the Notes, to the effect that to the best of their knowledge and belief, the information pertaining to the Commonwealth of Massachusetts contained in the Information Statement, as of the date of sale and the Information Statement, as of the date of sale and as of the date of delivery of the Notes, does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. The certificate referred to in clause (e) will exclude reference to Appendices A, C and D of the Preliminary Official Statement and the Official Statement and any information concerning the reoffering of the Notes included in the Official Statement at the request of the successful bidder or bidders. The opinion referred to in clause (g)(i) will exclude from its scope (i) the financial and statistical data contained in the Preliminary Official Statement and the Official Statement, (ii) Appendices A, B and D of the Preliminary Official Statement and the Official Statement and (iii) any information concerning the reoffering of the Notes included in the Official Statement at the request of the successful bidder or bidders. The opinion referred to in clause (h) will exclude from its scope (i) the financial statements and other financial statistical data contained in the Preliminary Official Statement and the Official Statement, (ii) Appendices A, B and C of the Preliminary Official Statement and the Official Statement, (iii) the information therein under the caption "Tax Exemption" and (iv) any information concerning the reoffering of the Notes included in the Official Statement at the request of the successful bidder or bidders. The opinion referred to in clause (i) will exclude from its scope the financial and statistical data contained in Appendix A of the Preliminary Official Statement and the Official Statement and the information contained in the exhibits to such Appendix A.

Postponement -- The Authority reserves the right to postpone, from time to time, the date and time established for the receipt of bids. **ANY SUCH POSTPONEMENT WILL BE ANNOUNCED BY THOMSON MUNICIPAL NEWS NOT LATER THAN 11:00 A.M., BOSTON TIME, ON THE LAST BUSINESS DAY PRIOR TO ANY ANNOUNCED DATE FOR RECEIPT OF BIDS.** If any date and time fixed for the receipt of bids and the sale of the Notes is postponed, an alternative sale date and time will be announced at least one business day prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit a sealed bid for the purchase of the Notes in conformity in all respects with the provisions of this Notice of Sale, except for

the date and time of sale and except for any changes announced by Thomson Municipal News at the time the sale date and time are announced.

Minority/Women Business Enterprises -- It is the policy of the Authority that appropriate consideration be given to firms who (a) are minority business enterprises and women's business enterprises and (b) have significant local ownership or presence. The Authority requests and strongly urges such firms to be bidders and all firms to make a good faith effort to meet this goal by including such firms in their management group or syndicate and/or in the provision of legal services or other advisory services.

Additional Information -- Additional information concerning the Authority, the Commonwealth of Massachusetts and the Notes is contained in the Preliminary Official Statement dated February 17, 1998, to which prospective bidders are directed and to which this Notice of Sale is appended. Such Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. The Preliminary Official Statement has been deemed final by the Authority as of its date within the meaning of Rule 15c2-12 with permitted omissions, but is subject to change without notice and to completion or amendment in the Official Statement. Copies of the Preliminary Official Statement including this Notice of Sale and the Official Bid Form for the Notes and the interest rate per annum specified by the Authority as described above may be obtained from Wesley G. Wallace, Jr., Treasurer-Controller, Massachusetts Bay Transportation Authority, 10 Park Plaza, 8th Floor, Boston, Massachusetts 02116 (617/222-3216).

Settlement -- It is expected that settlement of this issue at DTC will occur on February 27, 1998, against payment therefor in immediately available funds. The successful bidder or bidders will be given at least twenty-four (24) hours notice of the time and place of settlement.

Replacement Notes Upon Termination or Failure of Book-Entry Only System -- In the event that (a) DTC determines not to continue to act as securities depository for the Notes or (b) the Authority determines that continuation of the book-entry only system of evidence and transfer of ownership of the Notes is not in the best interests of the beneficial owners of the Notes, the Authority will discontinue the book-entry only system with DTC. If the Authority fails to identify another qualified securities depository to replace DTC, the Authority will provide for the authentication and delivery of replacement Notes in the form of fully registered certificates.

February 17, 1998

MASSACHUSETTS BAY TRANSPORTATION AUTHORITY

By WESLEY G. WALLACE, JR.
Treasurer-Controller